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## DEVELOPMENT OF TRANSNATIONAL CORPORATIONS IN THE ASPECT OF GLOBALIZATION

*This article analyses the main world transnational companies (TNCs) and the impact of globalization on their activities. Globalization is a powerful real aspect of the new world system and it represents one of the most influential forces in determining the future course of the planet. In this process TNCs play an important role. Last researches are analyzed and they show that number of TNCs increased every year. Investments in offshore financial centers (OFCs) remain at historically high levels. By joining each other TNCs create global value chains (GVC). From one hand it is the different processes in different parts of the world that each add value to the goods or services being produced. Positive and negative impact of GVCs is shown. The KOF index of globalization in the world and in Ukraine is investigated. The main regional trends, which could involve into regional industrial development compacts, are analyzed.*

**Keywords:** transnational companies; globalization; global chains; index of globalization.

**Introduction.** Since the beginning of the twenty-first century, profound changes have been underway in the international economy, brought by the advance of globalization and transnationalization, sweeping technological changes and the emergence of new and powerful competitors, such as China, India and, more generally, the countries of the Asia-Pacific region. The implications of these changes are both varied and complex. The globalization of the financial market, for example, is far outstripping that of the real economy, making real-time operations a more common feature in the world of finance than in production or foreign trade. The subprime mortgage crisis in the United States and its repercussions in the global financial system have revealed the extreme volatility of the world's financial markets and exposed how vulnerable developing economies are even when sound and prudent macroeconomic policies have been implemented.

**Methodology.** The question of globalization and transnationalization was investigated by many economists such as R. Robertson, I. Wallenstein, P. Smith, A. Dreher and others. Theoretical and methodological base for this paper is UNCTAD's, IMF's, the World Bank's database. However, there are a lot of various publications on the topic of globalization, this question is still not clear to the bitter end.

**The subject is** to analyze the activities of main TNCs and to investigate new aspects of globalization process.

**The main purposes** of this paper are:

- ✓ to clarify the notion of "globalization" as applied to the world economy;
- ✓ to find the main block parts of globalization process;
- ✓ to evaluate the interaction of the world economy with globalization and business transnationalization;
- ✓ to analyze the position of Ukraine in the world globalization.

**Results.** Globalization is a powerful real aspect of the new world system and it represents one of the most influential forces in determining the future course of the planet. It has manifold dimensions: economic, political, security, environmental, health, social, cultural, and others. The fo-

cus here is on the concept of "globalization" as applied to the world economy. The term was coined in the 1980s, but the concept is an old one that has different interpretations to different people. Partly as a result of these different interpretations, there are very different reactions to "globalization," with some policymakers, scholars, and activists seeing it as a force for advancing the world economy while others, again all three, seeing it as a serious danger to the world economic system [3].

Globalization is understood here to mean major increases in worldwide trade and exchanges in an increasingly open, integrated, and borderless international economy. There has been remarkable growth in such trade and exchanges, not only in traditional international trade in goods and services, but also in exchanges of currencies, in capital movements, in technology transfer, in people moving through international travel and migration, and in international flows of information and ideas [5, p.20].

Economic globalization has been the dominant trend of the world economic development at the turn of the 20th – 21st centuries. Though the research interest to globalization problems has grown for the latest decades, the practical and methodological issues are still disputable concerning category- and- conceptual identification, possibility of economic evaluation of not only globalization significance, but also the peculiar to the latter transnational transformations with respect to regional groupings, individual countries with different levels of economic development, and the world economy, as a whole [4].

Last researches shows that number of state owned TNCs increased from 650 in 2010 to 845 in 2012, that is big growth. The number of net M&A deals by private equity remained at historically high levels, although value fell by 34% [1].

Table 1. TOP-10 world biggest TNCs, 2013

#	Company name	Nationality	Industry	Rank (2013/2008)	Market Cap. \$ bn
1	APPLE	United States	Technology	+40	416
2	EXXON MOBIL	United States	Oil & Gas	-1	404
3	GOOGLE	United States	Technology	+33	263
4	BERKSHIRE HATHAWAY	United States	Financial	+9	257
5	PETROCHINA	China	Oil & Gas	-3	255
6	WAL-MART STORES	United States	Consumer Service	+5	246
7	GENERAL ELECTRIC	United States	Industrials	-4	240
8	MICROSOFT	United States	Technology	-1	240
9	IBM	United States	Technology	+18	238
10	NESTLE	Switzerland	Consumer Goods	+4	233

Analyzing Table 1 we can see that the great amount of world biggest TNCs are originally from the USA. The second place takes China. 11<sup>th</sup> place takes Ind&Comm BK,

China, financial sector. Most of the companies are technology and oil & gas.

Further in Fig.1. there are some leading scopes of world TNCs.

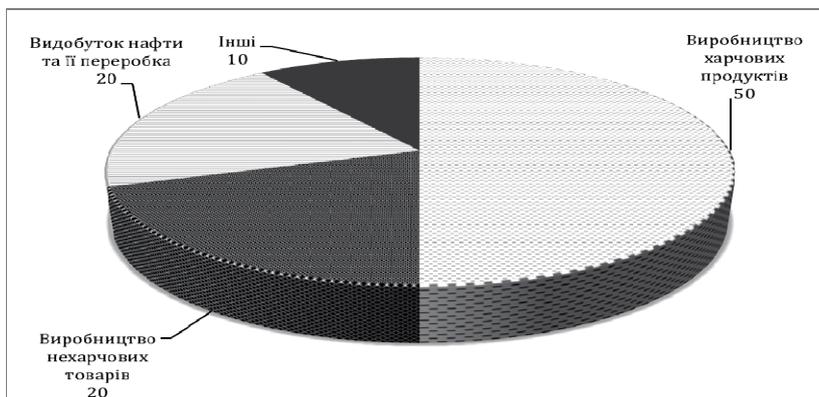


Fig. 1. World TNC leaders by economic activities, 2013, per cent

Source: World investment report 2013. Global Value Chains: Investment and Trade for Development, UNCTAD, Division on Investment and Enterprise Geneva, – 26 June 2013

From Fig.1. we can see that leading scope is technology. Than there are oil and gas and consumer goods. Others includes industrials, financials, health care, etc.

Global processes of redistribution of the world market affects on different sectors dominated by TNCs. In case of Ukrainian accession to the WTO, a significant portion of domestic enterprises face that. Of course they are not ready to face the competition with the leading Western companies. The main question for Ukraine is to create our own Ukrainian transnational structures to interact with TNCs both in Ukraine and in the world markets. This way chose China, Russia, India, Indonesia, Mexico, Venezuela, etc. (as well as industrial developed countries, where there are hundreds of large TNCs). The experience of these countries shows that the national capital is able to compete with TNCs only if it is structured into powerful financial-industrial education, adequate international peers and are able to pursue an active foreign policy. However, to create a corporation of full closed cycle that could take raw materials extraction, processing, manufacture of a product and its implementation, Ukrainian certain industries need time. While some steps in this direction have already been made. So, for the past two years considers the possibility of creating a state in the energy sector of a vertically integrated companies such as "Oil of Ukraine" on the basis of "Ukrnafta", JSC "Ukratnafta" and NPC "Galichina", which consisted of 700-800 gas stations and controlled up to 15 per cent of market share of light oil in the country. At the same time close to the creation of native TNC – integrated oil company with all elements of the process chain "production – processing – marketing" are Privatbank and UkrSibbank.

Some success in terms of business achieved transnational Corporation "Industrial Union of Donbass" (ISD). Main attention is paid to the creation of a vertically integrated holdings in the chain "coal – coke – metal". At the same time ISD creates not truncated companies (without foreign infrastructure), but the full ones, for what the company is actively expanding into foreign markets, attract new partners, together with foreign companies involved in the creation of consortia to promote their products in the foreign market. Close to the creation of full cycle TNC Donetsk "System Capital Management", that controls such giants as "Azovstal" Enakiyev Steel, Avdiivka Coke.

However, the process of creating of Ukrainian TNCs can be greatly accelerated and expanded in the industrial spectrum in the aspect of attracting foreign partners. For this companies which are in cooperation with foreign firms can form common structures to engage in strategic alliances through the creation of interstate corporations. For major domestic economic structures (at the beginning of 2003 in Ukraine there were about 36 thousand corporate joint associations) the most attractive option of creating transnational corporations may be their association with the Russian industry partners, that can course to creation of Ukrainian- American, Ukrainian-Canadian or Ukrainian-German corporations. Deploying domestic TNCs with capital of Russia and other CIS countries, can be a determining factor in the post-Soviet economic reintegration segments and has prospects of entering the markets of third countries. In Ukraine and Russia, there are many similar enterprises, which may, by combining efforts and capabilities, create a powerful body corporate that can take a serious position on foreign markets. Therefore, the creation of the

Ukrainian-Russian TNK can serve as a powerful stimulus for the expansion of production capacity of structures that will be part of these multinationals, and to increase their financial performance, which in turn will contribute to the further diversification of production capacity rates and volumes of produced products, and will integrate the bilateral economic space much higher than a dozen international agreements and arrangements. Thus the creation of

Ukrainian TNCs allows to protect national economic interests, will contribute to the further development of Ukrainian economic structures, the internationalization of Ukraine into the world economy, its participation in the process of global transformations.

A lot of TNCs remain to withdraw profits to offshore financial centers (OFCs). Investing in offshores never ceased to be a leading that Fig.2. shows.

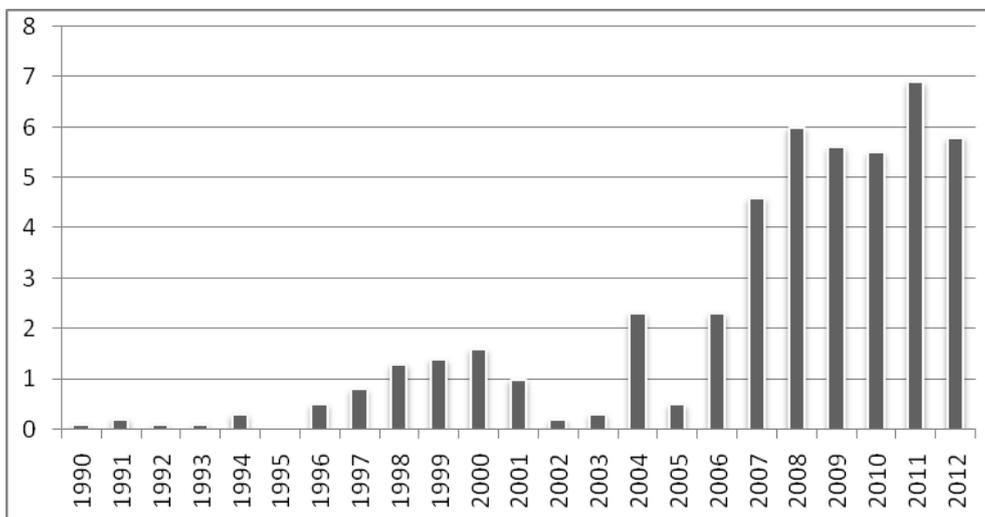


Fig.2. Value of OFCs in global FDI flows, 1990-2012, per cent

Source: World investment report 2013. Global Value Chains: Investment and Trade for Development, UNCTAD, Division on Investment and Enterprise Geneva, – 26 June 2013

From Fig.2. we can see that investments in OFCs remain at historically high levels. The quantity of investments in OFCs accounted for approximately 1 billion USD in 1990 while in 2000 it grew to 20 billion USD. From 2000 it started to decline, but we saw a great increase in 2004 of 30 billion USD. It was a big fall in 2005 (25 billion USD), but in 2007 it reached its previous level. From that time we can see a growth, the biggest one was in 2011 and the growth rate was 90 billion USD. In 2012 it fell to 78 billion USD.

By joining each other TNCs create global value chains (GVC). From one hand it is the different processes in different parts of the world that each add value to the goods or services being produced. By joining a global value chain, small enterprises have the ability to transform their business into an international operation offering greater opportunities.

The contribution of GVCs to development can be significant, however participation in GVCs also involves risks which are shown on Fig. 3.

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<ul style="list-style-type: none"> <li>● Value added trade contributes nearly 30 percent to developing countries GDP on average</li> <li>● There is a positive correlation between participation in GVCs and growth rates of GDP per capita</li> <li>● GVCs have a direct economic impact on value added, jobs and income</li> <li>● Participation in GVCs can help countries' acquisition and dissemination of technologies and skills, and spread international best practices, including on social and environmental issues, e.g. through the use of CSR standards.</li> <li>● GVCs can also be an important avenue for developing countries to build productive capacity, opening up opportunities for longer-term industrial upgrading</li> </ul>	<ul style="list-style-type: none"> <li>● GDP contribution of GVCs can be limited if countries capture only a small share of the value added created in the chain</li> <li>● Also, a large part of GVC value added in developing economies is generated by foreign affiliates of TNCs, which can lead to relatively low "value capture", e.g. as a result of transfer pricing or income repatriation</li> <li>● Technology dissemination, skill building and upgrading are not automatic. Developing countries face the risk of remaining locked into relatively low value added activities</li> <li>● Environmental impacts and social effects, including on working conditions, occupational safety and health, and job security, can be negative</li> <li>● The potential "footlooseness" of GVC activities and increased vulnerability to external shocks pose further risks</li> </ul>

Fig.3. Positive and negative impact of GVCs on the countries and their economies

Source: Top 100 the biggest world companies by market capitalization, pwc. – 2013

As a result of Fig.3. we can conclude that countries need to make a strategic choice on whether and how to promote GVCs. Countries need to carefully weigh the pros and cons of GVC participation, and the costs and benefits

of proactive policies to promote GVCs or GVC-led development strategies, in line with their specific situation and factor endowments. Some countries may decide not to promote GVC participation. Others may not have a choice:

for the majority of smaller developing economies with limited resource endowments there is often little alternative to development strategies that incorporate a degree of participation in GVCs. The question for those countries is not so much whether to participate in GVCs, but how. In reality, most countries are already involved in GVCs one way or another. Promoting GVC participation requires targeting specific GVC segments, i.e. GVC promotion can be selective. Moreover, GVC participation is only one aspect of a country's overall development strategy [1].

To have comprehensive understanding of the process of globalization and its impact on the world economies we analyzed KOF globalization index. The KOF Index of Globalization is a ranking of the most global countries based on three dimensions of globalization: economic globalization, social globalization and political globalization. Further on Fig.4. there is a dynamic of the process of globalization from 1991 to 2010 in the world and in Ukraine [2].

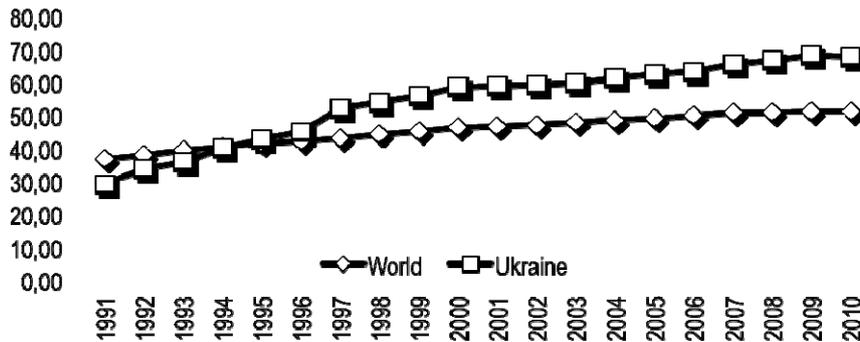


Fig. 4. Dynamic of the process of globalization in the world and in Ukraine, 1991-2010, KOF

Source: Dreher A., 2006. Does Globalization Affect Growth? Empirical Evidence from a new Index, Applied Economics 38, 10:1091-1110; Dreher A., Gaston N. and Martens P., 2008, Measuring Globalization – Gauging its Consequence, New York: Springer

From Fig.4. we can see that in comparison with the world Ukraine has very high growth of the globalization index which includes such indices and variables as economic globalization (actual flows and restrictions); social globalization (data on personal contact, on information flows, on cultural proximity) and political globalization. During the last 19 years this rate rose from 29 to 68, while the world index of globalization increased from 37 to 41. It means that our country has rapid pace of development and integrate in the world economy. From the other hand KOF index of globalization in the world shows stable growth without any sharp spikes. Globalization is a process by which the experience of everyday life, marked by the diffusion of commodities and ideas, is becoming standardized around the world. Factors that have contributed to globalization include increasingly sophisticated communications and transportation technologies and services, mass migration and the movement of peoples, a level of economic activity that has outgrown national markets through industrial combinations and commercial groupings that cross national frontiers, and international agreements that reduce the cost of doing business in foreign countries. Globalization offers huge potential profits to companies and nations but has been complicated by widely differing expectations, standards of living, cultures and values, and legal systems as well as unexpected global cause-and-effect linkages [6, 7].

The situation in Ukraine these days is unfavorable for any kind of investments and cooperation. We had a great influence of world economic crisis on our economy; the recession was strong and deep. Ukrainian economy did not have enough time to recover and come to pre-crisis levels. Current political crisis reduced investment attractiveness of our economy and the KOF index underwent reduction, because KOF index of globalization shows stable growth without any sharp spikes. Further on Fig.5. we show the main regional trends, which could involve into regional industrial development compacts [1] and improve the situation in some regions.

From Fig.5. we can see that partnership between governments in region, between the public and private, between governments and international organizations and between trade and investment promotion agencies play an important role for all regions. These are the basic block parts of regional industrial development compact.

**Conclusions & Discussions.** To summarize we should mention that in this article the concept of "globalization" was clarified. Globalization is a powerful real aspect of the new world system, and it represents one of the most influential forces in determining the future course of the planet. It has manifold dimensions: economic, political, security, environmental, health, social, cultural, and others. It has been reshaping the world faster than ever in the last two decades. Globalization is understood here to mean major increases in worldwide trade and exchanges in an increasingly open, integrated, and borderless international economy. Globalization is a process of interaction and integration among the people, companies, and governments of different nations, a process driven by international trade and investment and aided by information technology. This process has effects on the environment, culture, political systems, economic development and prosperity, and on human physical well-being in societies around the world.

This process closely linked with the process of transnationalization and the development of transnational companies. Number of state owned TNCs increased from 650 in 2010 to 845 in 2012. The number of net M&A deals by private equity remained at historically high levels, although value fell by 34%. Investments in offshore financial centers (OFCs) remain at historically high levels.

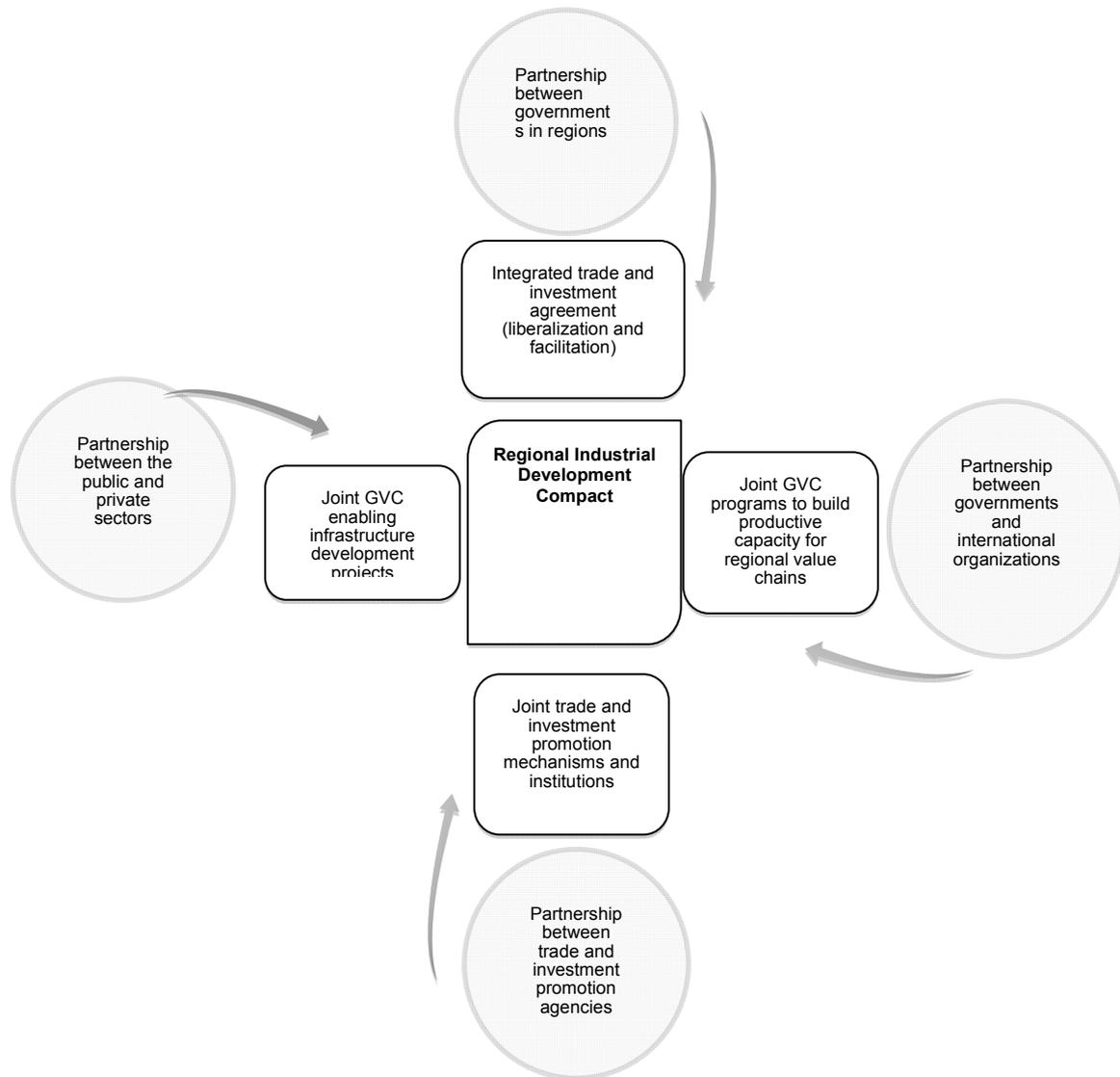


Fig.5. Main regional trends, which could involve into regional industrial development compacts

Source: Top 100 the biggest world companies by market capitalization, pwc. – 2013

By joining each other TNCs create global value chains (GVC). From one hand it is the different processes in different parts of the world that each add value to the goods or services being produced. By joining a global value chain, small enterprises have the ability to transform their business into an international operation offering greater opportunities. Countries need to carefully weigh the pros and cons of GVC participation, and the costs and benefits of proactive policies to promote GVCs or GVC-led development strategies, in line with their specific situation and factor endowments. Some countries may decide not to promote GVC participation.

Overall, we should take some measures to support our economy and the economy of our region to participate in the complex process of globalization and transnationalization. Help our companies to cooperate with TNCs or create our national ones.

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#### РОЗВИТОК ТРАНСНАЦІОНАЛЬНИХ КОРПОРАЦІЙ В АСПЕКТІ ГЛОБАЛІЗАЦІЇ

У статті проведено аналіз розвитку транснаціональних корпорацій в аспекті глобалізації. У даній статті розглянуто теоретичні та методологічні основи поняття глобалізація. Досліджено діяльність основних світових ТНК. Проаналізовано індекс глобалізації КОФ у світі та в Україні. Розглянуто глобальні ланцюги та їх вплив на економіку.

Ключові слова: транснаціональні компанії; глобалізація; глобальні ланцюги; індекс глобалізації.

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### РАЗВИТИЕ ТРАНСНАЦИОНАЛЬНЫХ КОРПОРАЦИЙ В АСПЕКТЕ ГЛОБАЛИЗАЦИИ

*В статье проведен анализ развития транснациональных корпораций в аспекте глобализации. В данной статье рассмотрены теоретические и методологические основы понятия глобализация. Исследована деятельность основных мировых ТНК. Проанализировано индекс глобализации КОФ в мире и в Украине. Рассмотрены глобальные цепи и их влияние на экономику.*

*Ключевые слова:* транснациональные компании; глобализация; глобальные цепи; индекс глобализации.

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### ECO-INTELLIGENT TOOLS – A NECESSITY FOR SUSTAINABLE BUSINESSES

*Many of the challenges associated with sustainable development can be traced in the way modern society produces and consumes. Production, distribution and supply of goods and services require material and energy consumption, having an impact on natural resources both quantitatively and qualitatively, generating waste, pollution and disrupting ecosystems. Eco-business intelligence is the capacity of people, processes and applications / tools to organize business information, to facilitate consistent access to them and analyse them in order to improve management decisions, for better performance management of the organizations that are increasingly pressed to synchronize their processes and services with a sustainable development agenda, through the development, testing and implementation of decision support software. By adopting sustainable practices, eco – intelligent companies can gain added value, increase market share and boost shareholder value. Moreover, the growing demand for "green" products has created new markets and the visionary entrepreneurs already reap the rewards of approaching sustainability. Large and small companies are learning that sustainable business practices not only help the environment but also can improve profitability by pursuing higher efficiency, fewer harmful side-effects, and better relationships with the community and more. Gaining competitive advantage is a core concern of the companies and the existence of systems of identification, extraction and analysis of available data in a company, but also from the external environment, to provide real support for business decisions, is an essential ingredient of success. This paper highlights the necessity of eco-intelligent tools that help determining the organization's strategies, identifying the perceptions and capabilities of the competitors, analyzing the effectiveness of current operations, deploying long-term prospects for environmental action and establishing indicators and key variables for organizational health, security and natural growth of its assets. The proposed tool is a decision support system that will be implemented in an online environment, tested and integrated with the information systems of the organizations. The eco-intelligent business tool can be used to obtain competitive advantages by the organizations that seek to contribute to a better quality of life in the present without compromising the development and life quality of future generations.*

*Keywords.* business intelligence, sustainable companies, decision support systems.

**Introduction.** The intelligence in the business society has occurred in the late 1960s, early 1970s, emerging from government and military spheres, where it remains deeply rooted even today.

During 1960-1970, marketing and strategic management broke into management thinking, both being based on the theory of "turmoil in the business" by Igor Ansoff.<sup>1</sup> Thus, companies have started to collect information about competitors, initially focusing on tactical and operational sales and marketing. As a result, information about competitors, although limited, have become part of business plans.

In the years 1980-1990 there was an incisive penetration of competitive intelligence. The most important event was the publication of Michael Porter's books "Competitive Strategy" (1980), "Competitive Advantage" (1985) and "Competitive Advantage of Nations" (1990). They have had a decisive influence on the business community, presenting aspects of competition and the business environment. Porter's five forces model is still used by many companies as an important part of the strategic process. Although at the time many companies started analyzing the industry and competition, they lacked the full support of the management. Also in the '80s and '90s, in the United States appeared concept of benchmarking, "introduced by Xerox, it became a very important management application to

compare performances between companies' branches and even between competing companies" [1, p.24].

Another important milestone in the evolution of competitive intelligence was the establishment in 1986 of the Society of Competitive Intelligence Professionals (SCIP), and in the 90s the term "competitor" was replaced with "competitive". On the anniversary of 25 years of existence, the directors voted "the official change of the name from the Society of Competitive Intelligence Professionals into Strategic and Competitive Intelligence Professionals, to reflect the development and evolution of competitive intelligence" [2].

From the beginning until now, the mission SCIP has been amended four times. Thus, in 1986, its mission was to help professionals develop their expertise in collecting and gathering information, dissemination of competitive intelligence and involvement of decision makers in a productive dialogue, creating organizational competitive advantage. Then, in 2003, there was the first change of the mission, SCIP becoming the global organization chosen by professionals in terms of competitiveness and related disciplines, the first to use qualified personnel to improve business decision-making and organizational performance. In 2005, the objective was to enhance the success of the organization's members through leadership, education, support through legal means and networks.

The last change occurred in 2007, when it was developed the strategy for 2009-2013. The new plan now guides the company aims to meet a number of high value targets. It also recognizes the competitive intelligence as an essential discipline for business decisions and organizational success.

**Understanding Competitive Intelligence.** The competitive intelligence process continually seeks to detect

<sup>1</sup> According to Igor Ansoff's theory, in order to be effective, the strategy of a company must match the level of turbulence present in its environment. Due to the strong impact that turbulences have on the companies, understanding these levels lead to a more profitable business.