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MODERN DOMINANTS OF THE TRANSNATIONALIZATION OF INTERNATIONAL BUSINESS

This article is devoted to the peculiarities of the transnationalization of international business. Based on the analysis of scientific research, modern dominants of active development of transnational corporations are defined. The ratings of the largest TNCs in the world on market capitalization and incomes are considered. The division of transnational corporations in terms of production specialization in 2010 and 2016 is presented, on the basis of which the tendency of changes in the dominant branches of transnationalization of international business is traced.

Key words: transnationalisation, transnational corporation, dominants, international business, ranking of TNCs.

Formulation of the problem. At the present stage, the world economy is characterized by processes such as internationalization, globalization and transnationalization, which affect the economic activity of all countries of the world and are closely interconnected. The process of transnationalization of production arose as a necessity of a modern world economy. The economic processes of transnationalization are due to the greatest opportunity and need for the transfer of capital from countries with its relative surplus in a country with its deficit, where there are surplus other factors of production that cannot be effectively used in reproduction processes due to lack of capital [1–4]. In a context of intensified internationalization of the world economy, transnational companies (TNCs) represent a mighty part of corporate business, play a leading role in strengthening and strengthening world economic ties. Its production and commercial activities of TNCs actually link national and regional markets, which in turn ensures the integrity of the world economy. No process on the world stage takes place without the participation of TNCs, which are the driving force behind the development of the world economy.

However, the dominant components of the process of transnationalization of international business are changing under the influence of internationalization of the economy and changes in the most important industries of the TNCs. In view of this, the issue is not only the role of transnational corporations in the world economy, but also the peculiarities and factors of their development. Therefore, this study will provide an opportunity to actualize issues of the factors of transnationalization.

Analysis of recent research and publications. Theoretical aspects of studying the activities of transnational corporations were studied by some domestic and foreign scientists. The most famous are the following: S. Yakubovsky, Y. Kozak "Multinational Corporations: the Characteristics of Investment Activity", L. Mykhailyshyn "Theories of Transnationalization: Foundations of Formation and Critical Aspects" [1], A. Amarasena, "Current Trends in the International Business Environment" [5].

In addition, we should mention the weighty contribution of R. Griffin, M. Paste, A. Golikov, O. Dovgal [4], V. Kulishov [4], I. Lomachynska [3; 6] and others.

Separation of previously unresolved parts of the common problem. There is a lot of literature devoted to modern primes of transnationalization. However, there is a need to structure all the dominants and analyze them. This will contribute to the formation of a clearer understanding of the current conditions of the process of transnationalization for further scientific work and development.

The purpose of the article is to analyze the current state of TNCs, identify the dominant transnational corporations in international economic relations and characteristics of TNCs.

Presentation of the main material of the study.

The process of transnationalization as a phenomenon of modern world economy has an objective basis. The economic processes of transnationalization are mainly due to the possibility and need for a flow of capital from countries with its relative surplus to countries with its deficit, where, however, there are abundant other factors of production that cannot be effectively used in reproduction processes due to a shortage of capital. In addition, these processes are stimulated by the need to reduce risks by placing capital in different countries, as well as the desire to bring production closer to prospective markets and rationalize taxation and customs payments for the transnational company as a whole.

The effectiveness of foreign economic expansion as a means of mitigating the conjuncture of fluctuations is assessed very highly and is considered to be greater than that provided by purely national methods of reducing economic risk. Based on numerous studies, economists have concluded that the presence of branches in many countries more reliably guarantees the stability of profit generation than important factors such as the company's large absolute size or the degree of diversification of its production program within the country. Freely maneuver the size of production the company can only if it is able to make a profit even with a small amount of production. An extensive network of production branches located in different countries allows transnational companies to increase production where it can be implemented with maximum benefit and limit where it is unprofitable. Firms that are part of an international concern and are in a difficult situation can dramatically reduce unprofitable production. More decisive in comparison with national firms, the actions of multinational companies are explained by the fact that, in contrast to their purely domestic competitors, they can achieve coverage of fixed costs not only by keeping loss-making production, but also at the expense of income received in other countries.

The reasons for the formation and development of transnational companies are very diverse, but all of them are to a greater or lesser degree related to market imperfection, the existence of restrictions on the development of international trade, strong monopoly power of producers, currency control, significant transport costs, differences in tax legislation of different countries. Transnationalization of production gives international companies a number of undeniable advantages and opens new opportunities [5]. These include:

– opportunities for increasing efficiency and enhancing competitiveness, which, incidentally, are common to all large industries, integrating supply, production, research, distribution and marketing enterprises into their structure;

– increase the mobility of the company's "intangible assets" (management, marketing and other experience) that can be transferred to other countries within a transnational company. At the same time, the results of using these assets do not go beyond the company, remaining its property;

– additional opportunities to improve efficiency and competitiveness by accessing the resources of foreign countries (using cheaper or more skilled labor, raw materials, research capacity, productive capacity and financial resources of the host country);

– proximity to consumers of products of the foreign branch of the company and the possibility of obtaining information about the prospects of markets and the competitive potential of firms in the host country. Branches of transnational companies receive important advantages over host country firms as a result of using the scientific, technical and managerial potential of the parent company and its affiliates;

– the ability to take advantage of the peculiarities of the state, in particular tax policy, in different countries, the difference in exchange rates, etc;

– possibility to extend the life cycle of their technologies and products, "dumping" them as they become obsolete in foreign branches and focusing efforts and resources of divisions in the parent company to develop new technologies and products;

– through direct investments, the company is able to overcome various barriers to the introduction of a country through export. The incentive for direct foreign investment often creates national tariff barriers. So, in the 1960s, a large flow of investment from the United States to Europe was generated by tariffs set by the European Community. Instead of exporting finished products, transnational companies established their own production in the EU countries, thus avoiding their tariffs.

These advantages are obvious, therefore they can be considered as the reasons for the active development of transnationalization processes. In addition, the processes occurring in the global economy (external) and within one or another economic unit (internal) also contribute to this process. First, consider the external incentives of transnationalization.

Globalization of economics. "Disparate national economies and their economic entities have recently acquired a new platform for cooperation under the concept of "common interest", which implies the joint formation and redistribution of world income. The economic boundaries of the functioning of new players have arisen, different from administrative-state borders" [8, p. 42]. This stage is characterized by the elimination of political barriers and the liberalization of state supervision over foreign economic operations, as well as the allocation of foreign investors to national status in many areas of the economy within the country. The policy of liberalization was adopted which led to the globalization of various economics including the former communist countries and socialist pattern of the society. The free trade regime, business across the globe has grown considerably. Goods, services, capital and technology are moving across the nations significantly. The globalization of economics has been instrumental in the growth of international business.

Rapid technological advancement. Technological factor. Scientific and technological progress has a diverse impact on the globalization and internationalization of business.

First, new technologies expand the opportunities for conducting foreign, multinational and global business. The greatest influence on the methods of conducting international business operations is provided by information and communication technologies. Liberalization of trade and investment regimes creates institutional and legal prerequisites for the formation of a single economic space on a planetary scale, and the progress of technologies in the physical sense makes the world one, reducing the distances and times of the movement of goods, capitals, people, and information.

Secondly, the scientific and technical revolution increases the motivation of companies for transnationalization. Being in fact an international phenomenon, the scientific and technological revolution in recent decades has changed international competition, shifting its focus to the struggle for the possession of the latest technologies, production methods, product development and fundamentally new products. This makes the competition more expensive and stimulates (among other factors) the formation of inter-firm partnerships of companies from different countries, since direct competition in the innovation-technological sphere of international giants can lead to the victory of one of them, but to the ruin of all.

For international companies, it is becoming increasingly important strategic imperative not only to ensure their own scientific and technical developments and protection of their intellectual property, but also to gain access to scientific and technical resources of other countries, in particular, by organizing joint production or relocation of their scientific-technical subsections. At the same time, the novelty of the situation is that if earlier the companies have mixed such units mainly in developed countries, now developing countries and countries with transitional economies, whose potential (at least in some spheres) is growing, and R & D costs there are relatively small.

Growth of regional trading blocs. Regional trading blocs are adding to the pace of globalization. Against the background of reducing barriers to the movement of goods, capitals, people and increasing the amount of information in the course of globalization processes, integration processes are taking place in all the macro regions of the world. As a result, in the world economic space, zones are created that are favorable for the transnational business of the companies participating in the agreements, and in some cases prerequisites arise for "business without borders" and for the formation of unified economic complexes [7].

There are several levels of regional integration, in which the conditions for international business vary. This is primarily a free trade zone, a customs union, a common market, an economic union, a political union.

In the world there are over 300 different integration groups and agreements. The largest and most stable of them are: in Europe – the European Union (a full-fledged economic union with elements of political integration), in America – NAFTA (the North American Free Trade Agreement), MERCOSUR (the Common Market of South America), in Asia – ASEAN.

Increase in Competition. The determining influence on the formation and development of the competitive environment of the host country are investment strategies for the entry of TNCs into foreign markets through investments in new production, the creation of joint ventures and strategic alliances,

mergers and acquisitions that change concentration in markets, intensity and form of competition.

Competitive market mechanisms are modified under the influence of contractual forms of transnational activities, which ensures the diversification of corporate advantages. By enhancing the competitiveness of the national market, large foreign companies are capturing the most advanced and promising segments, increasing price destabilization, monopolizing profitable market niches. With increasing competition, firms have preferred not only to source raw materials and intermediate goods from the least costly country, but also to set up their units in different countries, which minimizes operating costs and reduces financial risk. The growing concept of cost minimization and risk reduction, with a view to surviving in a competitive environment, has led to a rapid transnationalization process [8].

Increase in business alliance. A feature of strategic alliances is that they are increasingly being concluded between TNCs of different home countries. Each transnational firm can enter into an alliance with many other companies. Sometimes such alliances are competing firms, engendering a complex relationship of simultaneous cooperation and rivalry. As a result, entire clusters, "galaxies" of TNCs are formed, unite a significant number of firms directly and indirectly controlled by them. Often the super-large TNCs are at the center of numerous inter-firm transactions.

Significant development of strategic alliances in high-tech industries, where rapid innovation and rapidly growing R & D costs, compel TNCs to cooperate to jointly bear the costs and risks associated with developing new products. Acceleration of the pace of technological progress leads to the fact that TNCs are forced to develop, produce and sell products on a global basis from the very beginning of the life cycle of the product. In a time and resource constraint, multinational firms distribute innovation costs through alliances and ensure the efficient use of their investments.

In degree and variety: during last 15 years international business alliances, joint ventures, mergers, amalgamations and takeovers have occurred in the world by the companies of different countries. This has further led to widening of international business.

Equally, important factors affecting the transnationalization of international business are those that occur on the domestic market or directly within the company itself.

Saturation of domestic demand. The richest countries of the world have an "excess" of capital, which does not find a lucrative application within the country and seeks profit beyond its borders. In other words, if the domestic market is saturated with goods and services, then investing in further expansion of production of these goods and services within the country is pointless, it does not bring the desired profit. Therefore, capital is exported abroad, where there is cheap raw materials, cheap labor, favorable conditions for the sale of products, which means that the rate of profit is much higher than in one's own country. The market for a number of products tends to saturate or decline in the advanced countries. This often happens when the market potential has been almost fully tapped. For example, the fall in the birth rate implies contraction of market for several baby products. Businesses undertake international operations in order to expand sales, acquire resources from foreign countries, or diversify their activities to discover the lucrative opportunities in other countries.

Scale economies. Economies of scale are reductions in unit production costs resulting from large-scale operations. The technological advances have

increased the size of the optimum scale of operation substantially in many industries making it necessary to have foreign market, in addition to the domestic market, to take advantage of scale economies.

Increasing the scale of the company with effective planning of its activities certainly involves significant benefits, such as:

- incomparable opportunities in financing the development of new types of products and their introduction in a short time in mass production;
- relatively large ease of obtaining loans, availability of bond financing, and in critical circumstances and government support;
- definition of the production program in terms of a spatially larger market, where the averaging effect of fluctuations in the market situation is always manifested;
- possibility of diversification of production; savings due to the economies of scale effect on production and distribution costs;
- higher export potential, not only due to low cost, but also due to developed sales networks outside the national economy.
- the possibility of building strategic planning for the highest level of corporate management without compromising the effectiveness of its operation, while maintaining the lower levels of operational control and leadership behind the managers;
- ability to withstand external influences longer.

The desire to expand the scale of operations is an integral feature of any business. Before choosing how to increase the scale of activities, such as mergers and acquisitions, expanding sales through an advertising campaign or expanding the sales network, or opening your own branches abroad, it is essential that this method is cheaper and more profitable than possible alternatives [9].

Domestic recession. The decline in product sales in the home market of the corporation leads to the need to search for new markets or opportunities for production abroad. Particularly when the domestic market is very small, transnationalisation is the only way to achieve significant growth.

For example. Nestle derives only about two per cent of its total sales from its home market, Switzerland. Similarly, with only 8 per cent of the total sales coming from the home market, Holland, many different national subsidiaries of the Philips have contributed much larger share of total revenues than the parent company.

So, domestic recession often provokes companies to explore foreign markets.

Even when the domestic market presents good growth prospects, foreign markets may be more attractive. For example, a number of Indian pharmaceutical firms have been deriving major part of their growth from abroad. The US generics market, for instance, provides an enormous opportunity for Indian firms [10, p. 11].

Competition as driving force. Competition may become a driving force behind internationalization. There might be intense competition in the home market but little in certain foreign countries. A protected market does not normally motivate companies to seek business outside the home market.

Moreover, global competition between firms makes them view the world as a huge integral market. Despite the oligopolistic character of the structure of many segments of this market, there is a constant change in the balance of forces between agents of economic activity, primarily due to changes in the benefits of ownership, as well as the evolution of the advantages of internal-

ization and placement. In this struggle for control of the market, the transformation of national firms into transnational or higher internationalization of the latter often becomes one of the most important conditions for the growth of firms. TNCs are the most dynamic structural element of the world economy. By mobility, the ability to transform ties and organizational structures, the speed of reaction to the impulses of the scientific and technological progress, they are far superior to national or regional forms of economic entities. In contrast to them, TNCs are not tied to one or another territory, and therefore able to combine factors of production of different state affiliation and participate in the development of markets in any part of the world.

Government policies and regulations. Government policies and regulations may also motivate transnationalization. There are both positive and negative factors which could cause transnationalization. Many governments offer a number of incentives and other positive support to domestic companies to export and to invest in foreign investment.

Improving image of the companies. International business has certain spin-offs too. It may help the company to improve its domestic business; international business helps to improve the image of the company. There may be the 'white skin' advantage associated with exporting- when domestic consumers get to know that the company is selling a significant portion of the production abroad, they will be more inclined to buy from such a company.

Strategic vision. The systematic and growing transnationalisation of many companies is essentially a part of their business policy or strategic management. The stimulus for transnationalisation comes from the urge to grow, the need to become more competitive, the need to diversify and to gain strategic advantages of transnationalisation.

As noted above, with the development of the world economy, there is a redistribution of branches with the highest number of TNCs. As can be seen from Figure 1, in 2006, in the ranking of the largest TNCs in terms of market capitalization, energy companies dominated by Exxon Mobil, while IT technology was only presented by Microsoft.

However, after 10 years in 2016, the situation has changed dramatically: IT technology is represented by five companies, while only one remained from the energy sector. In addition, the financial services

sector has also taken its place. This trend confirms the above-mentioned factors of transnationalization of international business, in particular the impact of technical progress and the redistribution of resources.

But, one can not ignore another TNC rating. The Fortune Global 500 magazine conducts annual research on the largest companies in the world. The main criterion for compiling the list is the revenue of participants (Table 1).

In the system of international and transnational corporations, it is possible to single out both unconditional leaders whose activities extend to many countries of the world, as well as those corporations whose role in the world economy is insignificant. So, in the ranking of the 500 largest companies in the world for 2018, among the world's top 10 companies, 6 are representatives of energy sector. Nevertheless, it should be noted that the championship for Wal-Mart stores and the retail sales sector. Of course, since the United States is the most economically developed state, the corporate associations of the economic sectors of this country are dominant in the development of international trade and capital flows. However, it is worth mentioning the growing influence of Chinese TNCs, as 3 out of 10 companies are representatives of China.

Conclusions. The reasons for the transnationalization of international business and the emergence of TNCs are very diverse, but all of them are more or less related to market imperfection and, in particular, to the presence of tariffs and other restrictions on the development of the world economy, currency controls, transport costs, the nature of returns to scale, differences in tax legislation, etc. External factors of transnationalization are globalization of economics, rapid technological advancement, growth of regional trading blocs, competition and business alliances. Equally, important factors affecting the transnationalization of international business are those that occur on the domestic market or directly within the company itself. In particular, there are saturation of domestic demand, scale economics, domestic recession, government policies and regulations, image if the companies and strategic vision.

In addition, according to the latest TNC ratings, the leading sectors of transnationalization are IT technologies and energy. These statistics confirm the relevance of the modern dominants of transnationalization described in the article.

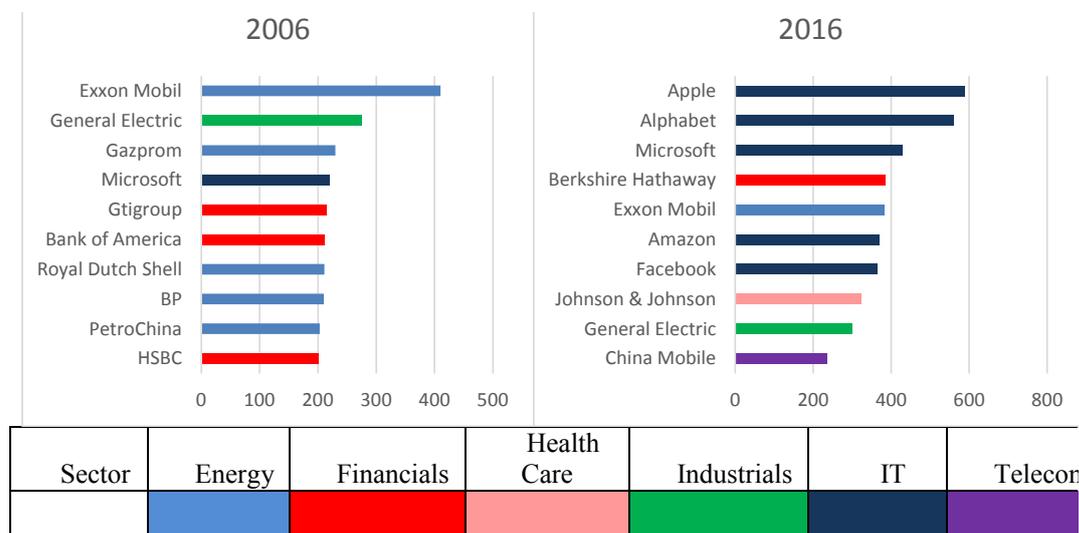


Figure 1. World, largest listed companies by market capitalization, \$bn

Source: [11]

Table 1

The largest TNC's by revenue

Name of company	Revenue per year, (\$M)	Assets, (\$M)	Employees	Sector
Wal-mart stores	500 343	204 522	2 300 000	Retailing
State Grid	348 903	575 278	913 546	Energy
Sinpec Group	326 953	346 544	667 793	Energy
China National Petroleum	326 008	629 410	1 470 193	Energy
Royal Dutch Shell	311 810	407 097	84 000	Energy
Toyota Motor	265 172	473 133	369 124	Motor Vehicles & Parts
Volkswagen	260 028	506 956	642 292	Motor Vehicles & Parts
BP	244 582	276 515	74 000	Energy
Exxon Mobil	244 363	348 692	71 200	Energy
Berkshire Hathaway	242 137	702 095	377 000	Financials

Source: [12]

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СОВРЕМЕННЫЕ ДОМИНАНТЫ ТРАНСНАЦИОНАЛИЗАЦИИ МЕЖДУНАРОДНОГО БИЗНЕСА

Резюме

Исследование, проведённое в статье, посвящено изучению особенностей транснационализации современного международного бизнеса. На основе анализа научных исследований определены современные доминанты развития транснациональных корпораций. Изучены рейтинги крупнейших ТНК в мире по рыночной капитализации и доходам. Представлено разделение транснациональных корпораций по производственной специализации в 2010 и 2016 гг., на основе которой прослеживается тенденция изменений доминирующих отраслей транснационализации международного бизнеса.

Ключевые слова: транснационализация, транснациональная корпорация, доминанты, международный бизнес, рейтинг ТНК.

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Резюме

Дослідження, проведе у статті, присвячено особливостям транснаціоналізації міжнародного бізнесу. На основі аналізу наукових досліджень визначено сучасні домінуючі розв'язки розвитку транснаціональних корпорацій. Розглянуто рейтинги найбільших ТНК в світі за ринковою капіталізацією та доходами. Представлено поділ транснаціональних корпорацій за виробничою спеціалізацією в 2010 і 2016 рр., на основі якого простежується тенденція зміни домінуючих галузей транснаціоналізації міжнародного бізнесу.

Ключові слова: транснаціоналізація, транснаціональна корпорація, домінуючі, міжнародний бізнес, рейтинг ТНК.