

## **NON-FINANCIAL TRANSNATIONAL CORPORATIONS BEHAVIOR COMPARED TO THOSE OF FINANCIAL TRANSNATIONAL CORPORATIONS IN THE GLOBAL ECONOMY DURING THE CRISIS**

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### **ABSTRACT**

*The world economy is currently experiencing one of the biggest economic crises since the Second World War to the present. Crisis erupted in the United States and with indescribable force expanded worldwide causing serious difficulties both within the banking system and the real economy. The purpose of this paper is to highlight the most important non-financial TNCs worldwide, to analyze how they influence the global economy and comparing the results with those of financial TNCs. This paper concerns the interpretation of evolution that non-financial TNCs have had in a period of economic downturn, considering the value of assets, sales, number of employees and their weighting in foreign activity.*

**KEYWORDS:** *Transnational Corporations, financial transnational financial corporations, non-financial transnational corporations and financial crisis.*

**JEL CLASSIFICATION:** *F23, G01.*

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### **1. INTRODUCTION**

The overall impact of the crisis on the global economy was devastating economy was severely affected by slowing the development of new businesses and jobs, and even more increased number of unemployed due to contraction of business activity. Direct foreign investments growth in the world economy has become a stakeholder in both the developed world and the developing ones. Desai believes in his work, that during the currency crisis, U.S. multinationals can support positive the host country, this is due to the fact that financial multinationals are much less constrained compared to domestic firms. (Desai et. Al., 2004)

### **2. HISTORY OF TRANSNATIONAL CORPORATIONS (TNC)**

The first international expansion took place before 1945, and the first companies expanded their international activities were Standard Oil Trust and Ford, both of American origin. European origin companies have developed in this respect, after 1960, because before this time most companies were operating outside the country were of American origin, and only 6 were European origin. This development was significant as evidence is the fact that in 1974, ranking conducted for major transnational companies in the world, Europe has 20 such companies, among which we can mention Siemens, Daimler-Benz, Volkswagen, Fiat, BASF Hoechst, Bayer, Renault, British American Tobacco, etc.

After 1975 began its expansion in Asian companies, so the ranking of the 50 most important transnational world was formed by 21 European companies, 17 American and 12 Asian. From 1990 until today, there has been an explosion of mergers and acquisitions. During this period transnational companies have experienced a spectacular development process with an impressive

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evolution from several hundred such entities in 1970, more than 40,000 entities and nearly 250,000 agents, subsidiaries and branches. (The Economist, 1999)

Economic power of transnational companies in the last decade of the twentieth century, rose to over 50%, so the concentration of capital in the period 1997 -1998 showed the highest level and then focused its interest to establish control of national banks respectively on national financial markets.

At the beginning of XXI century, transnational companies are one of the biggest challenges for the current economic international order. Over 90% of all transnational companies are placed in strategic triad developed countries: USA, Japan, the European Union and have specialized markets such as car industry, research and chemistry industry and oil industry. (Charles W. Kegley, Eugene R. Wittkopf, 1999)

Companies operating on the territory of several countries were characterized by different elements and classified as follows (Bartlett, CA and Goshal, S 1989):

- multinational companies with a strong local base, depending on the different national legislations;
- International companies, derived from a parent company and following a global strategy, exploiting the skills and know-how of parent company;
- global companies, centralizing operations on a global scale;
- transnational companies with dispersed activities and specialized autonomous units with overall competence and know-how of their own.

National economies are influenced to a large extent on the decisions of transnational companies because they intend to neglect compliance with trade policies of states. (Martin Carnoy, 1993).

UNCTAD (research institution specialized in international transactions) argues that transnational companies are companies formed by one or more parent companies and their foreign subsidiaries. Parent company is an enterprise that controls assets of other entities in countries other than its home country, usually by owning a weighting of all their actions - minimum weight varies from one policy to another, being set at over 10% in the U.S. and over 25% in the European Union. (Mazilu Angela, 1999)

Main reasons why a company wants to internationalize their assets are considering obtaining the greatest possible profits obtained as low-cost and high profitability. This can be achieved by harnessing the opportunities that are offered by other countries with cheaper material and human resources by favorable export market penetration. (Mazilu Angela, 1999)

## **2.1. Trends and perspectives in times of crisis**

Global foreign direct investments had increased moderately during 2010, but this growth was still 15% below the mean value recorded before the crisis. Industrial production and global trade has had a notable expansion reaching values equal to the pre-crisis period. Half of global flows of foreign direct investments were attracted by the developing countries and those in transition. Foreign direct investments outflows from these economies were also great heights, and most investments were directed towards countries of Southern Europe. However, foreign direct investments flows to developed countries continued downward trend. The decline continued to be felt deeply and for poor countries and the least developed landlocked. At the same time, major emerging regions, such as East Asia and South-East Europe and Latin America experienced strong growth in foreign direct investments inflows.

International production is expanding foreign sales, employment and assets of transnational corporations, all growing. Spread of TNC subsidiaries abroad for more than 10% of global GDP and one third of world exports. State-owned TNC is also an important source of foreign direct investment in developing countries because the world there are about 650 TNC state holding at least 8,500 foreign subsidiaries spread across the global economy. TNC owned a percentage of total

global TNC but their investment is more important, and 11 percent of the global FDI in 2010. Foreign direct investment is a key component in the growth of the world economy. However, Direct foreign investments recovery after the crisis broke out, was slow. (Transnational Corporations, 2011).

### 3. NON-FINANCIAL TRANSNATIONAL CORPORATION BEHAVIOUR AND THEIR IMPACT ON GLOBAL ECONOMY

In order to analyze the behavior of non-financial TNCs global economy and comparison of these results with those obtained by the Financial TNCs have used data provided by UNCTAD which TNCs by foreign assets classified as spreading index as the value of foreign direct investment, and so on Analysis reference is made to the crisis, and thus were analyzed and compared the results obtained by TNCs in 2008 and 2010 respectively. This time the crisis began capturing the TNCs and their evolution after two years of crisis.

**Web Table 1. The world's top 50 non-financial TNCs, ranked by foreign assets, 2010<sup>a</sup>**  
 (millions of dollars)

Foreign Assets 2010	Foreign Assets 2008	TNC non-financial	Home economy	Assets		Sales		Employment	
				Foreign	Total	Foreign	Total	Foreign <sup>b</sup>	Total
1	1	General Electric Co	United States	551585	751216	79705	150211	154000	287000
2	2	Royal Dutch Shell plc	Netherlands United Kingdom	271672	322560	230697	368056	82000	97000
3	4	BP plc	United Kingdom	243950	272262	234313	297107	65926	79700
4	3	Vodafone Group Plc	United Kingdom	224449	242417	63069	71315	65729	84990
5	5	ToyotaMotor Corporation	Japan	211153	359862	140319	221604	118362	317716
6	6	Exxon Mobi Corporation	United States	193743	302510	254219	341578	52643	83600
7	7	Total SA	France	175001	192034	143047	186061	57686	92855
8	11	Volkswagen Group	Germany	167773	266426	130030	168046	210000	388000
9	-	EDF SA	France	165413	321431	33737	86311	54924	158842
10	12	GDF Suez	France	151984	246736	70167	111891	103865	211413
11	18	Telefonica SA	Spain	140882	173403	54409	80446	232114	269047
12	8	E.ON AG	Germany	135272	204277	57005	122997	49989	85105
13	14	Chevron Corporation	United States	124411	184769	109720	189607	32000	62000
14	10	Arcelor Mittal	Luxembourg	124392	130904	71290	78025	198896	262832
15	-	Enel SpA	Italy	121415	224548	54538	95289	40930	78313
16	15	Siemens AG	Germany	114648	139939	99825	111095	277000	405000
17	27	Nestlé SA	Switzerland	113574	118818	103154	105209	271605	281000
18	13	AnheuserBusch InBev NV	Belgium	108440	114342	32193	36297	104126	114313
19	17	Eni SpA	Italy	106638	176189	67180	130494	45967	79941
20	19	Deutsche Telekom AG	Germany	104342	170780	46560	82677	103230	252494

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21	20	Honda Motor Co Ltd	Japan	104286	139644	82871	104269	106230	176815
22	24	Iberdrola SA	Spain	87397	125202	20930	40306	17384	28519
23	42	Pfizer Inc	United States	83966	195014	38763	67809	68706	110600
24	23	ConocoPhillips	United States	83180	156314	65268	175752	13293	29700
25	50	Novartis AG	Switzerland	82506	123318	50011	50624	51728	119418
26	21	Daimler AG	Germany	80774	181494	103947	129485	96074	260100
27	16	Ford Motor Company	United States	79581	165793	65636	128954	82000	164000
28	54	Johnson & Johnson	United States	79430	102908	32137	61587	66940	114000
29	32	Mitsubishi Corporation	Japan	79153	136947	11264	60750	17615	58723
30	25	Hutchison Whampoa Limited	Hong Kong, China	75650	92762	21053	26924	198707	240000
31	33	Sony Corporation	Japan	72752	155986	58671	83786	107700	167900
32	30	Wal-Mart Stores Inc	United States	70422	170407	106399	408085	749600	2160800
33	26	EADS N.V.	France	69931	111153	54742	60599	76111	121691
34	53	General Motors Co	United States	69662	138898	56446	135592	106000	202000
35	37	Xstrata PLC	Switzerland	66430	69709	22902	30499	36436	38561
36	34	Nissan Motor Co Ltd	Japan	63499	129576	77673	102358	76321	151698
37	22	France Telecom S.A.	France	63217	125970	24870	60269	51576	161392
38	28	BMW AG	Germany	63026	145466	65258	80102	24384	95453
39	36	RWE AG	Germany	62268	124368	31045	67181	29830	70856
40	46	Anglo American plc	United Kingdom	62238	66656	25772	27960	92000	100000
41	45	Rio Tinto PLC	United Kingdom	61582	112402	54091	56576	34086	76894
42	43	Mitsui&Co Ltd	Japan	60347	103772	23549	54596	3111	40026
43	29	Procter & Gamble Co	United States	58087	128172	45784	78938	93151	127000
44	-	International Business Machines Corporation	United States	57474	113452	64289	99870	303584	426751
45	44	Hewlett - Packard Co	United States	55927	124503	81491	126033	212060	324600
46	93	Kraft Foods Inc	Netherlands/ United Kingdom	55204	95289	28273	49207	90000	127000
47	69	Vattenfall AB	United Kingdom	54013	80694	22606	29632	30994	40363
48	86	Glaxo Smith Kline PLC	United Kingdom	53488	66108	39337	43869	56551	96461
49	31	Roche Group	Japan	53172	64943	31407	45520	44842	80653
50	41	Lafarge SA	United States	52784	56780	18534	21416	60052	75677

Source: after UNCTAD/HEC Montréal

<sup>a</sup> Preliminary results based on data from the companies' financial reporting; corresponds to the financial year from 1 April 2010 to 31 March 2011.

<sup>b</sup> In a number of cases foreign employment data were calculated by applying the share of foreign employment in total employment of the previous year to total employment of 2010.

The world economy was strongly shaken by the crisis, which, in a relatively short time covered the whole world and has affected all sectors of the economy. However, there were TNCs that have adopted management measures and their success has provided such a period, the vast majority struggle to survive.

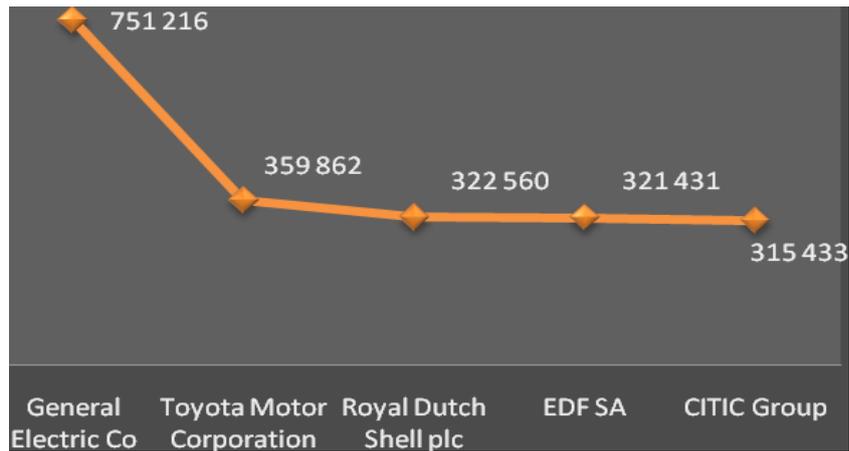
Analyzing the Non-Financial TNCs in terms of foreign assets in 2008 and 2010 found that the top three there were no significant changes, including:

First place is owned by General Electric Co. both years, which not only maintained its position but had a positive trend in the value of foreign assets. During the two years we can see that fingerprints crisis led to a decrease in total assets of 5, 87% since 2008, during this period, it can be seen that the decrease in assets held in the mother country as foreign assets grew in this period of 37.45%. Total sales value minus underwent a change during this period, of 17.7% and foreign sales side, the reduction was 18%. Decrease in sales triggered job cuts, the total number of employees decreased by 11.15% during this period and the number of foreign workers to 9.94%. This reduction in the number of employees is justified by the loss of sales because it does not makes sense to keep the same number of employees as demand is lower and sales dropped, importantly, were able to maintain their productivity performance.

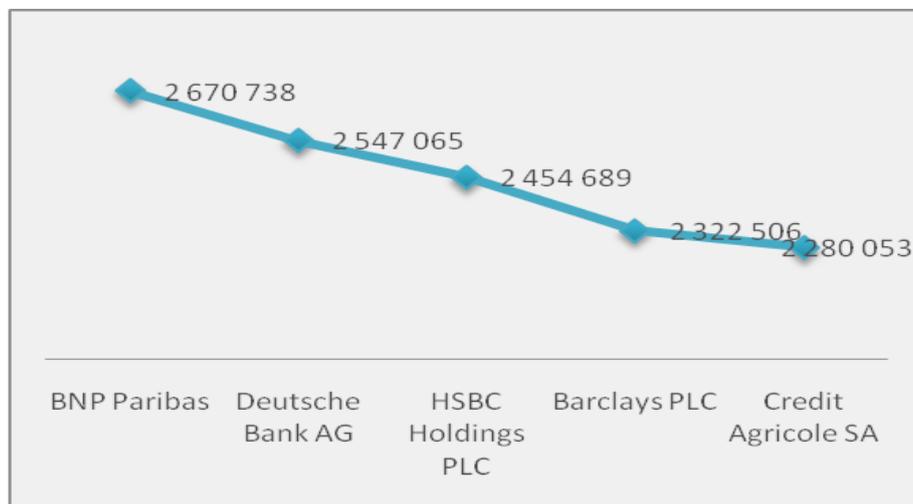
In second place is Royal Dutch Shell Plc, place that kept constant during the period studied. Transnationality behavior in 2010 compared to 2008 increased by 18.16% in foreign assets and an increase of 12.45% of total assets. While foreign sales decreased by 13.31% and 24.53% of the total. Total number of employees decreased slightly at 5.15% and 3.65% foreign employees. However it can be seen that although sales had a significant decrease on both levels, the number of employees decreased slightly, thus decreased employee productivity.

In the third place came BP Plc, which has climbed one position in 2008 was the fourth position. Its evolution during the crisis grew 29.10% of foreign assets and total assets of 19, 24%. Total sales and foreign sales have followed a downward trend with a decrease of 17.48% and 18.75% of foreign sales to total sales. A reduction in activity was necessary due to lower sales, which led to a reduction in the number of employees by 13.36%. I think that climbing a place in the ranking was due to the fact that it had the largest increase in foreign assets of all companies ranked.

On the development of the 50 non - financial TNCs TNC we found that 23 had a substantial increase in assets and thereby help them to climb the rankings conducted by UNCTAD, some of them had a spectacular evolution in terms of increasing the value of foreign assets because, although 2008 did not have a place in the top 50 TNCs now occupy, namely EDF SA was ranked 9, Enel SpA, which was ranked 15 and International Business Machines Corporation, which was ranked 44.



**Figure 1. Graphic evolution of the first 5 Non-Financial TNCs ranked by value of total assets**  
 Source: Croitor(Tcaciuc), E. L and Hapenciuc, C.V. (2012)

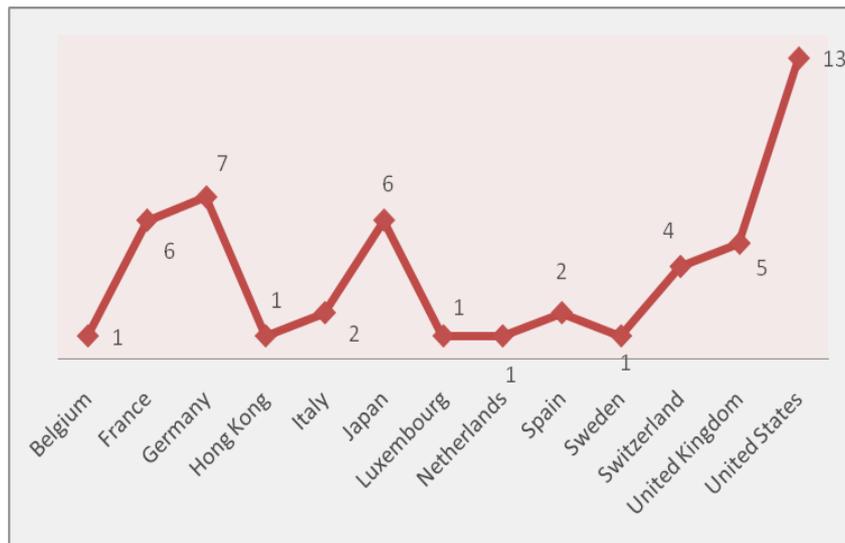


**Figure 2. Graphic evolution of the first 5 Financial TNCs ranked by value of total assets**  
 Source: Croitor(Tcaciuc), E. L and Hapenciuc, C.V. (2012)

Highlighting the two graphs makes us realize the big difference is between the two types of asset value TNCs. It is obvious that the assets held by the Financial TNCs have a much higher value than non-Financial TNCs respectively transnationality BNP Paribas Asset Value is greater than the aggregate value of assets of the five Non-Financial TNCs presented graphically.

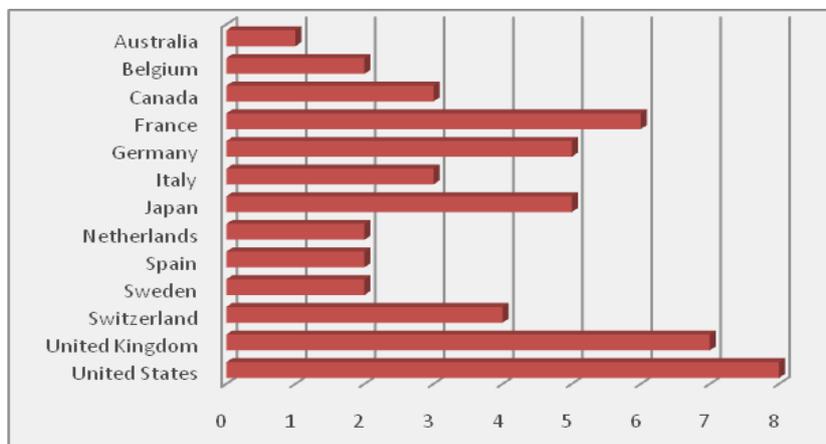
Calculating total asset value of the 50 non-Financial TNCs in table gave us the amount of 8,519,122 million dollars compared to the amount of total assets of the 50 Financial TNCs of 52,448,979 million. We found that the total assets of Financial TNCs are 6.16 times the total assets of the Non-Financial TNCs Financial.

It is very important to know the origin of TNCs and so we identified all mother countries for the 50 non-Financial Transnational and tried to illustrate this with a graphical representation.



**Figure 3. Graphical representation of countries by number of Non-Financial TNCs held**  
 Source: Croitor(Tcaciuc), E. L and Hapenciuc, C.V. (2012)

Graphical representation has shown us that the United States has the largest number of non-Financial TNCs in the rankings, and 13 of the 50 TNCs are domiciled in this country. Followed by a large enough difference, 8 TNCs which have their origins in Germany. Equality is between France and Japan with a total of 6 TNCs in ranking. Ranking UK's with five TNCs. Switzerland hosts 4 out of 50 in the rankings, Spain and Italy by 2 TNCs, while Belgium, Hong Kong, Luxembourg and Sweden have one located rankings of Non-Financial TNCs top 50 rated by value of foreign assets. Pentru a face o comparație cu țările de proveniență a finacial TNCs clasate în top 50 de UNCTAD s-au utilizat niste date și un grafic realizate într-o altă analiză care a fost prezentată la International Conference Business Excellence 2012.



**Figure 4. Classification of countries by number of owned TNCs Financial**  
 Source: Croitor(Tcaciuc), E. L and Hapenciuc, C.V. (2012)

From the graph we see that the largest financial corporations from throughout the United States, as in the case of non-financial. France and Britain also have an important role when it comes to the number of TNCs Financial similar places held by them in respect of Non-Financial TNCs. It seems that host countries are about the same for both types of TNCs. This is because a stable economy that facilitates, supports and assists the creation and operation of TNCs is entitled to enjoy a larger presence.

The automotive industry is the most active in the ranking presented as ranked eight of TNCs operating in this field. The value of foreign assets to total assets, where these TNC operating in the automotive, have an average of over 53%. It is obvious that more than half of the assets they hold

are abroad. Most are earned income abroad all as share sales by eight cups TNCs are more than 68% of total sales.

The oil industry is the second area of activity of TNCs, and seven of them working in the field of the 50 surveyed. Foreign assets accounted for 72% of total assets, and the value of foreign sales an average of 62% of total sales.

Electrical and electronic equipment industry is also quite prevalent, accounting for only five TNCs one that recorded 59% of its assets abroad and 66% of the revenues received from abroad.

The pharmaceutical industry is represented in the league by five TNCs, where over 71% of the total assets and the total income from abroad.

TNCs which have the activity field distribution utilities (gas, water and electricity) also enjoys a number of important respectively 5 and has a 60% share of foreign assets in total assets and accounted for 49% of total external revenue income. Most TNC of this industry enjoys a good position in the ranking occupying seats in the first part.

Telecommunications occupy four of the 50 positions and 73% of total foreign assets and 63% of the revenues received from outside the mother country.

Besides the listed industries are TNC operating in industries such as: Food, drink and tobacco wholesale trade, retail trade, mining and quarrying; various etc.

#### **4. CONCLUSIONS**

Studying in detail the results obtained by non-Financial TNCs in 2010, we find it very difficult to be able to make a top and say which company deserves to sit atop. So we tried to keep in first place those companies that have achieved the best results in different branches:

- The largest amount of total assets: - General Electric Co - with a value of \$ 751,216,000,000, leads posted next with a value close to half;
- The largest amount of foreign assets: - General Electric Co - with a value of \$ 551.585 billion, is different from the next ranked by an amount almost double;
- The highest volume of sales outfit: - Wal-Mart Stores Inc. - which received the 2010 value of \$ 408,085,000,000;
- The largest volume of foreign sales: - Exxon Mobi Corporation - which equaled \$ 254.219 billion from abroad;
- The highest number of total employees: - Wal-Mart Stores Inc. - which recorded a total of 2160800 employees, 5 times higher than the next TNC;
- The largest number of employees abroad: - Wal-Mart Stores Inc. - which had a number of 749,600 employees working abroad;

I believe that if a company divides its business in countries other than their country of origin, then draw some drawbacks to home, namely the reduction of jobs and rising unemployment due to the transfer of part of the assets held and abroad . And while some complaints may be in the wrong side, that host countries on research and development operation that takes place in the home, and innovation and technology are not implemented in host countries.

Countries have every incentive to create a favorable economic environment to attract TNCs because by transferring capital, technology and efficient management, jobs are created by opening businesses that result in increased salaries. Thus products become more competitive for export, investments in technology and the growth of export production improves the balance of payments and increase revenues.

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