NEW INVESTMENT STRATEGIES OF TRANSNATIONAL CORPORATIONS

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Abstract:
This article aims to highlight which are the most commonly used investment strategies of transnational companies in the current period. The classic strategies are analysed, such as acquisitions and mergers, but also the modern strategies, such as licensing or execution by contract. An analysis is also performed on the matrix generated by the motivations of transnational corporations (TNC) to make foreign investment, the determinants that contribute to adopting the financing decision (investing), namely the strategy adopted so that TNC receive the best investment options. An analysis is also provided concerning the way in which the investment flows have evolved after the economic - financial crisis. The investors' favourite destinations are followed, the most attractive areas, but also the strategies adopted. A brief analysis is also performed on how the major companies have entered the Romanian market.
Keywords: strategies, foreign direct investment, non - equity models, transnational company
JEL Classification: G_{32}, F_{23}

1. Introduction

The current economic - financial conditions, namely the global crisis started in 2007, have repositioned the strategies of all economic, political and social organisations and entities. In this context, transnational corporations (TNC) were forced to rethink their strategies, especially since in certain situations they themselves were the triggers of the crisis. Most of them have redesigned their investment strategies, they have repositioned themselves on other markets or they have reduced their costs to cope with the pressures of the crisis. There is a rethinking of policies at company level regardless of size, structure or object of activity. The theories on foreign investment, regardless of the opinion current, from the production cycle theory (Vernon, R., 1966) to the competitive advantage one (Porter, M., 1980, 1985), the market imperfections recovery theory (Hymer, S., 1976), the oligopoly theory (Buckley, P.J., 1999) the eclectic theory (Dunning, J., Lundan, S., 2008), reveal the importance of the strategy adopted for the transnational corporations when they consider investments. The success of the investment depends on the strategy. A well-grounded strategy is a prerequisite for success. The importance of the strategy is highlighted in the companies' management activity, developing thus a new field of strategic management. Important authors (Drucker, P., 1954) highlighted ever since their first published works the importance of strategic management, of investment strategy respectively. In the '60s Igor Ansoff (1965) spoke about the importance of strategies diversification both vertically and horizontally. Chaffee Ellen (1985) highlights the key elements of strategic management and its implications organisation-wide. There have been arguments in favour of increasing the organisation's adaptability to the external environmental conditions, the diversified development of overall corporate strategies and individual business strategies, and the importance of rigorous planning.

2. Motivation matrix - determinants – strategies

Setting the investment strategy involves first identifying the answers on what motivates the transnational companies to invest in countries other than the country of origin, as well as the attractiveness that a host country presents to a certain TNC, attractiveness that can be highlighted using the FDI determinants.

In this respect we consider that there is a fundamental link between motivations, determinants and strategies. Based on motivations and determinants, transnational companies make investments abroad.

In the literature (Dunning, J., Lundan, S., 2008), we identify five motivations of transnational corporations to make foreign direct investment:

1. Companies which make FDI to obtain the necessary resources to carry out their activities;
2. Companies which make FDI to be able to open their products on other markets;
3. Companies which make FDI to increase their efficiency;
4. Companies which make FDI to acquire strategic assets;

5. Other reasons such as: identification of certain countries with permissive laws in certain respects (escape investments), parent company support through various activities and products produced abroad (support investments).

Transnational corporations conducting FDI to obtain the resources necessary to carry their activities consider especially the natural resources (minerals, fuels) and the human resources (skilled and relatively cheap labour force). Thus they try to obtain an advantage generated primarily by the production cost - sales price relationship. Thus having access to resources with lower cost, the pricing policy can be a flexible one that can be a major advantage over competitors.

In case TNC want to expand their market, they will follow the markets where they can sell their products so that to achieve, on the one hand, the increase of the turnover and, on the other hand, the counter of the competition and the creation of outlets for the excess production of the home country.

Transnational corporations seeking to increase efficiency are based on three major objectives: rationalization of production, economies of scale and scope and risk diversification. Efficiency is measured as optimal ratio between income and expenditure of the company.

When transnational corporations turn to strategic assets acquisition, the goal is either to expand the production capacity or the entire location of the production of a certain good in the maturing stage on the host country market which has a high potential product uptake, either to counter the competition or to stop its expansion trend.

Concerning the FDI determinants, we keep in mind two opinions, the view expressed by Sanjaya Lall (1997) and the UNCTAD opinion (World Investment Report 2011).

In the former case the foreign investment determinants are divided into three categories: economic conditions including the market characteristics, labour force resources and competitiveness, host country policies represented by the macroeconomic policies promoted, the private sector, trade and industry and policy on FDI and transnational corporations strategies targeting risk and its perception, the strategies adopted.

In the latter case, the classification and cataloguing of determinants is more complex, targeting the issues concerning, on the one hand, the non-equity models and, on the other hand, the FDI themselves. Appendix no. 1 highlights this aspect.

In terms of transnational corporations' strategies, they are developed according to the motivations and determinants of foreign investment. J. Dunning (2008) reveals these strategies in the OLI paradigm, highlighting the benefits for ownership, location and internalization, but also the types of strategies adopted.

Table no. 1

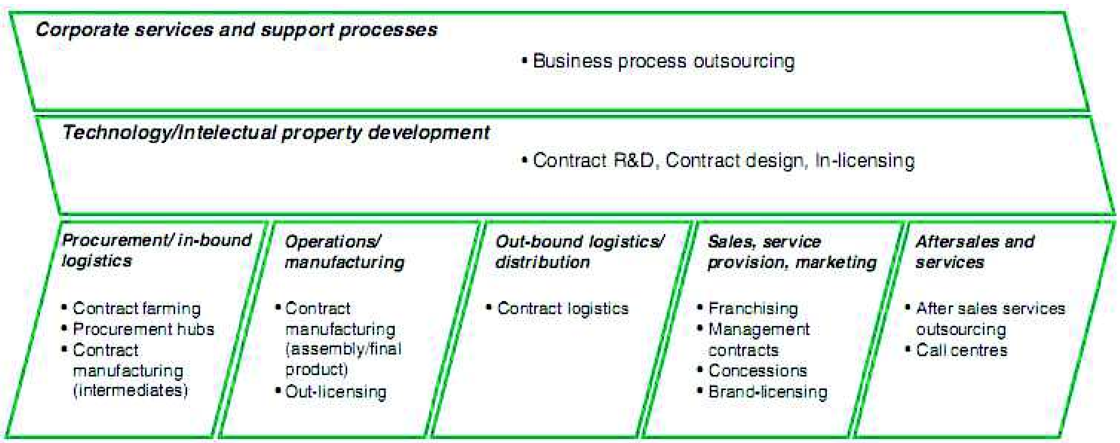
Proactive and reactive financial strategies (OLI paradigm) **Type of strategy**	**Investor's advantages**	**Location advantages**	**Internationalization advantages**
A. PROACTIVE FINANCIAL STRATEGIES			
1. Strategy of global cost and of capital availability			
- global source of capital at global level	X	X	
- checklists of strategic preparation	X		
- transparency of book-keeping			
- increased trade competitiveness and	X		
good financial - banking relationships	X		
- a competitive rating of crediting			
2. Negotiating financial subsidies and/or	X	X	X
tax reduction to increase the free flows of			
capital	X	X	
3. Cost reduction of branches through			
FDI			X
4. Reduced exposure to risks of banking operations and of transactions as a result of			
FDI	X		
B. REACTIVE FINANCIAL STRATEGIES			
1. Recovery of exchange rates in both			
directions		X	
2. Recovery of shares rate		X	
3. Capital control prevents free			
movement of funds		X	
4. Minimizing the tax system		X	X

Source: Dunning, J., 1980, Moffet, M., Stonehill, A., Eiteman, D., 2003

Based on motivations and specified determinants, multinational companies have developed a series of investment strategies that meet their current interests. These strategies are classified into three main categories (Mărculescu, S., 2010): strategies towards "functions" arbitration, from the global chain of "product" value; strategies in the offshoring context of the business services and business strategies of companies in emerging countries. In Appendix no. 2 these strategies are presented, as well as their main features.

Together with these strategies, companies, due to the diversification of trade relationships and of production have developed new strategies, or they have strengthened the existing ones, but which did not present a great share in the transnational corporations' options. Thus, a series of investment strategies has developed that does not involve the capital of transnational corporations (non-equity models - NEMs). According to UNCTAD (World Investment Report 2011) non - equity models (NEMs) are "contractual relationships between transnational corporations and their partners without involving the TNC's own capital."

In Figure no. 1 the main types of contractual relations specific to the activities through which transnational corporations are not bound by their own equity are presented.



Source: UNCTAD, based on Porter's classic value chain representation (Porter, 1985).

Figure no. 1. The main types of contracts without the involvement of transnational corporations' capital

These business strategies without equity involvement present a series of advantages for the transnational corporations such as:

- Low capital mobilization of equity (low financial investment) and high recovery of working capital;
- Reduced exposure to risk – as a result of the fact that the transnational corporation does not raise financial capital, the risk arising from such investments is very low;
- Flexibility and mobility – generated by the low involvement of equity. The transnational corporation can quickly direct itself according to the global and macroeconomic evolutions towards other areas or countries not affected by the crisis;
- Use of equity capital in making strategic acquisitions, without affecting the position of business on a particular market, a position that can be maintained by such contracts involving capital disclaimer.

At the same time there are also a number of factors that lead to business growth through such strategies (World Investment Report 2011). Thus, the fragmentation increase of the production process, the standardization of production or of the production elements, the increase of the protection of the intellectual property rights lead to the growth of the number of businesses made through production contracts (manufacturing contract) or outsourcing services.

The development of the legislation governing intellectual property and the identification of some viable partners on the emerging markets lead to the increase of licensing contracts number.

The saturation of the market with certain products, the increase of the number of consumers on the emerging markets lead to the development of the franchising businesses.

The increase of the number of passive investment, the market saturation and the intensification of the competition lead to the growth of the number of businesses conducted through management contracts.

The increase of the volatility in grain prices, the uncertainties about the structure of the partnership, especially in agriculture, lead to the growth of the number of agricultural services contracts.

3. Analysis of investment flows and of adopted strategies

Globally, the economic - financial crisis has influenced the foreign direct investment, pointing out a strong contraction starting with 2008 both in terms of capital inflows and outflows.

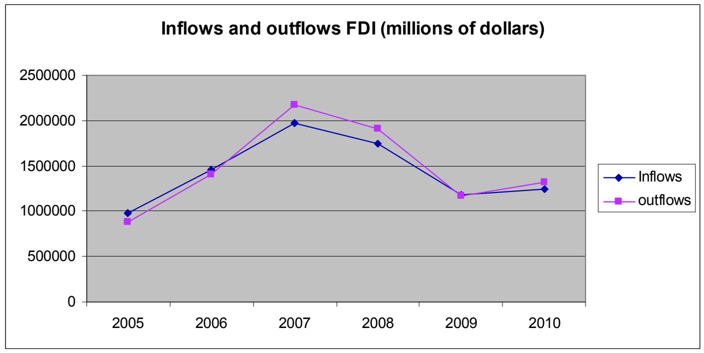


Figure no. 2. Inflows and outflows FDI

Source: UNCTAD – WIR 2011 and authors

There was a decline of 39.9% in capital inflows in 2009 as compared to 2007, when they reached the peak of capital inflows ($ 1,970,940 million). 2010 registered a slight revilement as compared to 2009, pointing out an increase of 4.9%. The capital outflows declined in 2009 as compared to 2007 by 46.2%, and in 2010 there was a 13% growth as compared to the previous year.

The most popular with the foreign investors' preferences continues to be the U.S. which in 2010 attracted about 228 billion dollars as FDI, followed by China with 106 billion dollars and Hong Kong with 69 billion dollars.

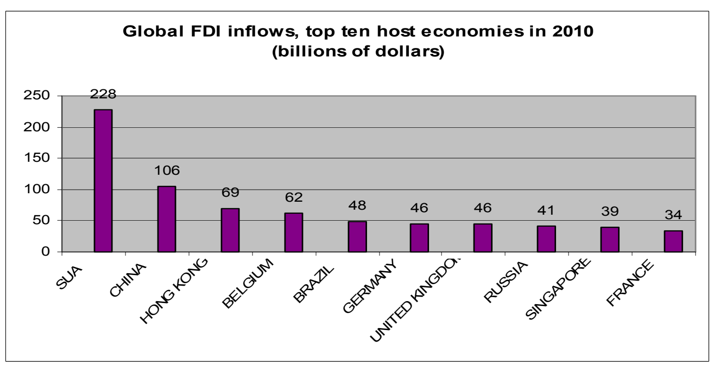


Figure no. 3. Global FDI inflows, top ten host economies in 2010

Source: UNCTAD – WIR 2011 and authors

The USA leads in terms of FDI achievements with a value of 329 billion dollars, followed by Germany with 105 billion dollars, and France with 84 billion dollars.

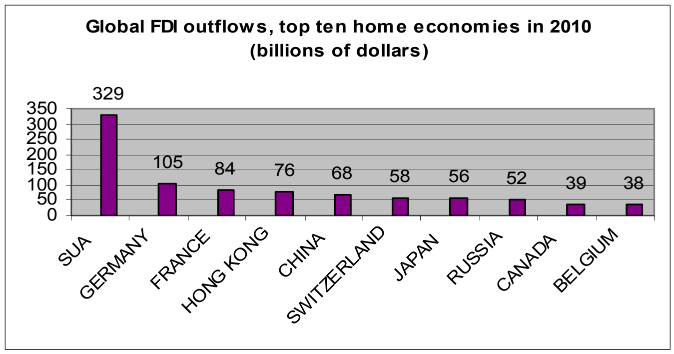


Figure no. 4. Global FDI inflows, top ten home economies in 2010

Source: UNCTAD – WIR 2011 and authors

In terms of sectors towards which FDI have been directed, we note that the secondary sector (manufacturing) has the largest share of it. Thus, in 2009, 449 billion dollars turned to this sector from on a total of 1,149 billion dollars, which means 39%. The services sector is next with 34% and the primary sector with 27%. In 2010 investments in the secondary sector increased by 23.4% as compared to the previous year while the services sector declined by 13.8% and the primary one by 29.7%.

Investment strategies adopted by transnational corporations highlight the preference for green field investments favored by investors, but also Mergers and Acquisitions investments (M&As). Related to the destination of these investments the most attractive are the developed countries which attract each year over 60% of FDI, followed by the emerging economies and the countries in Central and Eastern Europe (Appendix no. 3). It is to be noted that the attractiveness of the former communist countries that were part of the USSR has increased, particularly in the field of the energy and mineral resources.

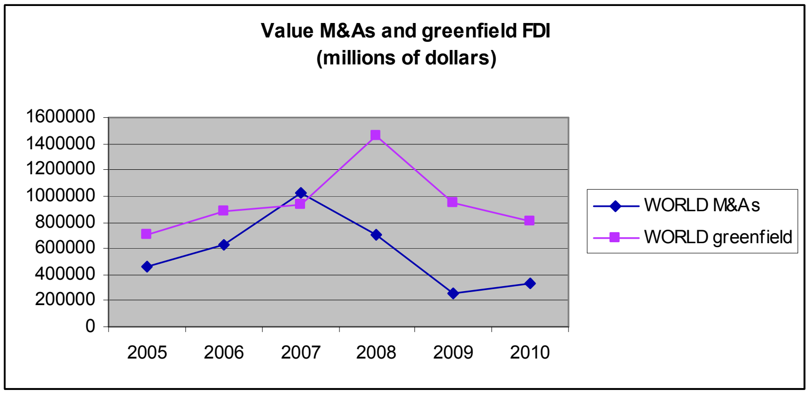


Figure no. 5. Value M&As and greenfield FDI

Source: UNCTAD – WIR 2011 and authors

In terms of the new strategies, without involving the equity capital in the business expansion, there is an intense concern of the transnational corporations for such businesses, due to the advantages they involve.

In 2010 it is estimated that worldwide, the value of these operations was approximately of 2,100 billion dollars, contract manufacturing and outsourcing services having the largest share of 62% (1,300 billion dollars), franchising (300 billion dollars) and licensing (300 billion dollars), thus a 14% share each, while the management contracts represented only 10% of the total value. The areas that have attracted most such investments were: electronics, auto components and pharmaceutical industry through manufacturing contracts, IT services through outsourcing services, hospitality industry and retail through franchising contracts and management contracts and licensing for cross - industry. In Table no. 2. one can see how these strategies have produced effects in 2010.

Table no. 2

Business value and employees by tipe of NEMs and industries – year 2010

Tipe of strategies - Industries	**Sales - estimates – Billion dollars**	**Value added - estimates – Billion dollars**	**Employees - estimates – mil.**	**Employees in developing countries - estimates – mil.**
Contract manufacturing				

• electronics	230 – 240	20 – 25	1.5 – 1.7	1.3 – 1.5
• automotive components	200 – 220	60 – 70	1.1 – 1.4	0.3 – 0.4
• pharmaceuticals	20 – 30	5 – 10	0.1 – 0.2	0.05 – 0.1
• garments	200 - 300	40 -45	6.5 – 7.0	6.0 – 6.5
• footwear	50 -55	10 - 15	1.7 – 2.0	1.6 – 1.8
• toys	10- 15	2 -3	0.4 – 0.5	0.4 – 0.5
Services outsourcing				
• IT services	90 - 100	50 – 60	3.0 – 3.5	2.0 – 2.5
Franchising				
• Retail, restaurant, hotel	330 – 350	130 – 150	3.8 – 4.2	2.3 – 2.5
Management contract				
• hotels	15 – 20	5 -10	0.3 – 0.4	0.1 – 0.15

Source : UNCTAT – WIR 2011

In Romania, foreign direct investments have experienced a significant decline together with the crisis. If at the end of 2008 they registered a record of 9,496 billion dollars, at the end of 2010 the investment value was of only 2,220 billion dollars, so a decrease of 427%.

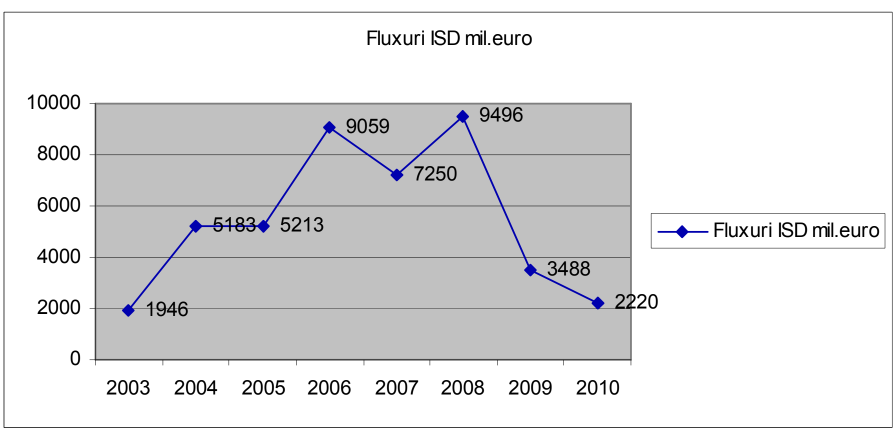


Figure no. 6. Fluxuri ISD

Source: NBR report on FDI in 2010

At regions level, Bucharest - Ilfov region, has attracted 62.2% of the total FDI, followed at great distance by the Central region with 7.4%, and the South – Muntenia region with 7.3%. The other five regions have each attracted less than 7% of the total foreign direct investments.

Regarding the type of investments made (the strategy adopted by transnational corporations to make investments), we find that in 2010 greenfield investments totaled only 46 million euros, while mergers and acquisitions totalled only 98 million euros. Investors preferred instead the development of firms. The value of the flows representing equity stakes in 2010 was of 3,928 million euros. In terms of greenfield investments, the majority (13.9%) has turned to the manufacturing industry, 10.2% to commerce, 6.8% to financial intermediation and insurance. Concerning the companies which preferred such investments, we find that the companies from Germany, the Netherlands, Austria and Italy dominate.

If we refer to the best companies present on the Romanian market in late 2010, we can make the following comments on the strategies adopted over time:

- OMV Petrom SA - acquired Petrom and then adopted a development strategy of the company;
- Automobile Dacia S.A. - Renault Automobile bought Piteşti Automobile Company and then adopted vertical and horizontal development strategies of the company;
- Rompetrol S.A. - Munay Gas Company in Kazakhstan acquired from the businessman Dinu Patriciu 75% of the shares. Regarding the distribution network, Rompetrol preferred the greenfield investments;
- Nokia Romania – Nokia Company preferred greenfield investments in Romania, after which the company was developed through incorporating a portion of the profit. Acquisitions are not significant in this case;
- Vodafone Romania and Orange Romania - the two mobile phone operators have made especially greenfield investments in Romania, and less acquisitions;
- British American Tabacco Romania – the cigarettes distributor made especially greenfield investments. With a turnover of about 4,828 million lei and a number of 290 employees in 2010, the company succeeded in establishing itself nationally, ranking 6 according to the mentioned turnover;
- Kaufland Romania – the retailer established itself on the Romanian hypermarket market through greenfield investments. The company has particularly acquired land in the commercial areas and then built the Kaufland hypermarkets;

- Lukoil Romania – Lukoil Company entered the Romanian market in the field of petroleum products distribution through greenfield investments. Today it is the third player in Romania in this sector, after OMV and Rompetrol.

As we can see, companies entered the Romanian market through acquisitions especially in the productive sector or through greenfield investments in the services sector. They strengthened their market position particularly through reinvesting their profits or through loans obtained especially from the banks in the country of residence.

4. Final considerations

In the current period, transnational corporations are in a process of reconsidering their options and they develop new strategies to cope with the market requirements. Already established, traditional strategies are being used, but the new options are moving towards non-equity models, namely towards those strategies that presuppose non-involvement of capital and thus reduction of risks. At present, investment strategies of large companies can be grouped into three categories: strategies aiming at functions' arbitration, from the global chain of product value; strategies in the context of business services offshoring and strategies of the companies in the emerging countries. In terms of the new investment strategies (non-equity models), they have exceeded 2,000 billion dollars, the largest share being held by contract manufacturing and outsourcing services, followed by franchising and licensing. The areas towards which these investments were directed were: electronics, auto components, IT, retail, and pharmaceutical industry. However, greenfield investments and mergers and acquisitions continue to dominate the way in which transnational corporations make foreign investments.

In Romania, acquisitions and greenfield investments have the largest share in the total of foreign investments made over time. The most attractive sectors were the oil industry, the automotive industry and ratail industry. In the future the increase of the share of the businesses conducted through licensing, franchising and management contracts is expected.

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Appendix no. 1

Specifications	Policy framework	Business facilitation	Economic determinants
Relevant for FDI and NEMs	• economic, political and social stability • competition policy • trade policy • tax policy	• reduction of hassle costs	• infrastructure • market size and per capita income • market growth • access to regional and global markets • access to raw material • country – specific consumer preferances • access to low-cost labour • access to skilled labour • relative cost and productivitity of resource • other input costs
More relevant for FDI	• rules regarding entry and operations • standards of treatment of foreign affiliates • international investment agreements • privatisation policy	• investment promotion • investment incentives • provision of after – care • provision of social amenities	• access to strategic assets
More relevant for NEMs	• stable general commercial and contract law • specific laws governing NEM	• facilitation efforts aimed at: - upgrading of technological, quality, productivity standards of local firms	• presence of credible local entrepreneurs and business parteners

	contractual forms • intellectual property protection	- entreprise development, increasing local entrepreneurial drive, business facilitation - subsidies, fiscal incentives for start – ups - information provision, awareness – building on NEM opportunities with local groups - supporting minimum standards of working conditions and CSR in local firms	• access to local capital

NEMs determinants

Source: UNCTAD – world investment report 2011

Appendix no. 2

Types of investitional strategies used by the TNCs

Category	Type of strategy	Strategy characteristics
Reorganisation and relocation strategies of companies based on the functions' arbitration, from the global chain of product value	Strategies of the functions' cedents	According to this strategy, TNC determine which of the important functions are retained within the company and which are outsourced. This decision is based on maximizing the added value.
	Majority retention strategy within the company	The main functions are retained within the company, focusing on technological advance.
	Functions outsourcing strategies	Some of the company's core functions are outsourced to obtain a higher profit as a result of the production relocation.
	Manufacturing full outsourcing strategies	They involve subcontracting the production.
	Manufacturing partial outsourcing strategies	They involve the partial subcontracting of certain services or of a part of the production.
	Functions integrators strategies	They involve strategies aiming to complete only the production, the production and design or the production, design and branding.
	Relocation strategies based on arbitration	They are based on a number of factors that allow efficient transnational corporation activity: differences in costs, identification of strategic assets, clustering, market potential, other motivating factors.

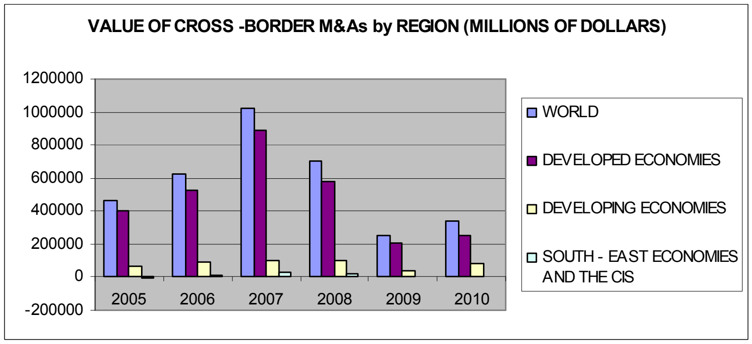
Reorganisation and relocation strategies in the context of services offshoring	Offshoring strategies	They primarily involve the relocation of certain functions specific to services. They are based on the following factors: the need to exercise control over activities, the degree of internal interaction, the existence of suppliers, the volume of outsourceable activities, costs reduction, improved services quality.
Strategies of transnational corporations in the emerging countries	Global brands development strategy	It involves building individual brands and products specific to the host country that will be later marketed globally.
	Niche products strategy	It involves the development of certain products for which there is uncovered demand globally.
	Non - organic growth strategy	It involves carrying out certain mergers and acquisitions of companies.
	Geographical reorientation strategy of the flows on the S-S and S-N relationship	The increase of the company competitiveness allows the orientation on the S-N direction and entering new market segments belonging to the developed countries.
	Strategy of functions integration and of climbing stairs	It is a strategy of strengthening transnational corporations that can be achieved by focusing on the production function or on the integration of several functions.

	Strategy of organising global suppliers networks	It involves the organisation of a specialized network of providers; the motives for choosing such a strategy refer to the patrimonial non-involvement of the transnational corporation, the access to the global demand, the linearization of the flow of orders, the financing facilities, and the global connections.
	The reverse outsercing strategy on the S-N direction	It involves retaining certain functions within the company and outsourcing other functions on the S-N direction.

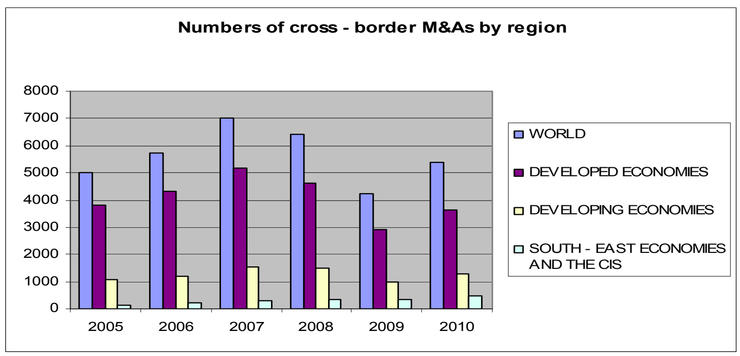
Source: Mărculescu, S., and authors, 2010

Appendix no. 3

Number and value of M&As and greenfield



Source: UNCTAD – WIR 2011 and authors



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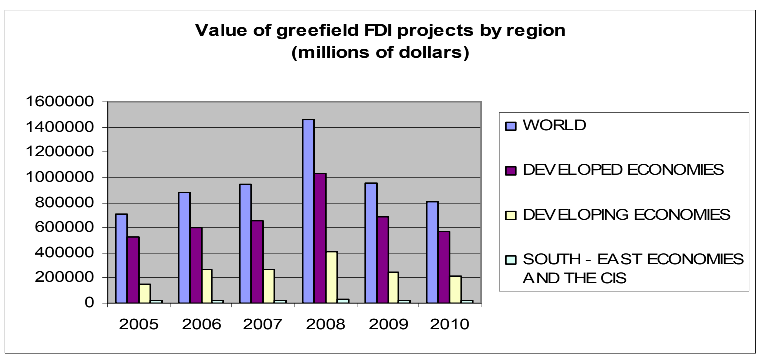

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