

THE MOTIVATIONS OF THE TRANSNATIONAL COMPANIES TO EFFECT FOREIGN CAPITAL INVESTMENTS IN THE EAST-EUROPEAN ECONOMIES

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Abstract: *The end of the 20th century and the beginning of the 21st century point to great economic, social, political, and financial transformations worldwide. In this part of the research paper we will deal especially with the transformations that occur at the level of the international financial market, at the level of multinational companies, and with the way in which they obtain the financial resources necessary to the carrying out and development of their activities.*

As we will see later on, the international capital investments faced during the period of analysis (the end of the 90s up to the year 2004) winding and contradictory evolutions. The involvement and the position of the companies in the international economic business have also changed, some of them concentrating massive funds for the development on certain markets, while others have taken their investments away from certain areas (for example, the conflict areas).

But which are the motivations that drive a transnational company ((TNC) to effect investments abroad? The specialists' opinions are mainly convergent, but there are also some divergences related to motivations.

According to P. Bran and I. Costică¹ the financial motivation of the investment comes from the financial-monetary advantages that the investor obtains. They appear as financial advantages generated by the dividends that (s)he can cash and totally or partially reallocate; financial advantages generated by the reduction or exemption from the customs taxes and duty free entries; monetary advantages that appeared under the form of advantages generated by the currency exchange or by the banking services.

M. Moffet, A. Stonehill and D. Eiteman² affirm that the motivation of direct foreign capital investments comes from the comparative and competitive advantage, as well as from the imperfections of the market.

Regarding the comparative advantage, it can be given by the existence and cost of the production factors (work, nature, and capital), but also by the specialization in certain production branches. Yet, we observe that if this comparative advantage has a leading part in the 19th century and at the beginning of the 20th century, after World War II it tends to be attenuated because of the following aspects:

- § the free circulation of at least two production factors (Work and capital) has attenuated the comparative advantage among states;
- § the emergence of numerous production factors, such as management, marketing, scientific research and development, as well as the effects produced by them, determines a decrease of the gaps and differences;
- § granting facilities related to the access to capital, fiscal, customs, and currency facilities also contribute to the reduction of the comparative advantage among states;

¹ **P. Bran, I. Costică** – *The economy of the international financial and monetary activity*, Economic Publishing House, Bucharest, 2003, p. 349

² **M. Moffet, A. Stonehill, D. Eiteman** – *Fundamentals of Multinational Finance*, Addison Wesley, 2003, p. 332-339

Regarding the advantage offered by the imperfections of the market, the above-mentioned authors summarize these advantages to five³:

- 1) The advantage offered by the production on foreign markets in order to meet the local request.
- 2) The closeness to the production factors generates lower costs for supply.
- 3) The increase of competitiveness as a result of the advantages brought by the production factors (cheaper labor force).
- 4) The scientific and managerial advantage. Many companies try to settle themselves where the scientific and managerial advantage is situated above that of the host company.
- 5) Political safety. Companies will look for the markets where they will be sure that from a political point of view they will not have problems (for example, nationalizations).

The competitive advantages refer to:

1. Managerial and marketing experience that can be capitalized to the advantage of the international company that is placed on an external market.
2. The technological advantage allows companies to have, from a scientific and engineering point of view, advantages related to the production technologies, to the investments in research, etc.
3. The financial advantage generated by the minimizing of the global costs and the efficiency of the capital, by the access to multinational financial resources.
4. The differentiated production that allows meeting a multiple request at low costs.

Table no 4.1
The proactive and reactive financial strategies
(OLI Paradigm)

The type of strategy	The investor's advantages	The advantages of the location	The advantages of the internationalization
A. PROACTIVE FINANCIAL STRATEGIES <ul style="list-style-type: none"> 1. The strategy of the global cost and of the capital availability <ul style="list-style-type: none"> - the source of capital at global level - lists of checking the strategic preparation - the transparency of the book-keeping - high commercial competitiveness and good financial-banking - a competitive rating of crediting 2. The negotiation of the financial subsidies and/or the reduction of taxes in order to increase the free flows of capital 3. The reduction of the branches costs by Foreign Direct Investment(FDI) 	X X X X X	X X X	X X

³ **M. Moffet, A. Stonehill, D. Eiteman – Fundamentals of Multinational Finance**, Addison Wesley, 2003, p. 334

4. The reduced exposure to risks of the banking operations and transactions as a consequence of FDI		X	
B. THE REACTIVE FINANCIAL STRATEGIES		X	
1. The capitalization of the exchange rates in both directions		X	
2. The capitalization of the share price		X	
3. The control of the capital prevents the free shift of the funds			X
4. Minimizing the taxation system			

Source: M. Moffet, A. Stonehill, D. Eiteman – Fundamentals of Multinational Finance, Addison Wesley, 2003

In another approach, J. Dunning identifies four motivations⁴ of the transnational companies regarding the direct foreign investments:

1. Companies that accomplish FDI in order to obtain the necessary resources to carry out the activity;
2. Companies that accomplish FDI in order to be able to sell their products on other markets;
3. Companies that accomplish FDI in order to increase their efficiency;
4. Companies that accomplish FDI in order to purchase strategic assets.

Regarding the companies that invest in order to obtain resources, they pursue three main categories of resources⁵: natural resources, human resources (the labor force), and the technological and managerial resources.

The natural resources (ore, fuel, agricultural products, etc.) generally come from the poor countries, while the FDI come from a small group of developed countries (The USA, Germany, France, Japan, Holland, etc.).

The investments that have as a main aim the labor force look for the countries in which this labor force is cheap so that they can obtain a competitive advantage through costs. The most looked for countries are those from South-East Asia, those of Latin America, but also those of Central and East Europe.

An example in this regard⁶ is represented by the investment effected by Siemens in Slovakia in the software production. The advantages obtained by this company refer to: specialists in software paid the third part in comparison with the salaries paid in Austria or Germany, obtaining high quality products, that are not, in any way, inferior to those obtained in the developed countries.

The technological and managerial resources represent another motivation of the companies to invest abroad. The Taiwanese and Korean companies sign alliances with companies from Occidental Europe, the USA, or Japan simply to be able to benefit from these advantages acquired by the established companies.

Regarding the companies that effect investments in order to be able to sell their products on other markets, we can say that the main motivation consists in increasing the turnover, increasing the market share, and in counteracting the competition. On the new markets one can also commercialize products that are in a phase of decline on the autochthonous market.

⁴ J. Dunning – *Multinational Enterprises and the Global Economy*, Addison Wesley, 1993, p. 56-58

⁵ C. Munteanu, A. Horobet – *Transnational finances*, All Back Publishing House, Bucharest, 2003, p. 213-215

⁶ C. Munteanu, A. Horobet – *Transnational finances*, All Back, Bucharest, 2003, p. 213-215

The technologic progress and the reputation of the brands make the conquest of new markets easier and easier.

Generally, we have aimed at countries in course of development from Asia, Latin America, and South-East Europe.

For the companies that have effected such investments the advantages have been enormous. An example in point is the investment effected by UNILEVER in Romania⁷ that has brought to the company a series of advantages, such as:

- consolidation of the company's position on the detergents market;
- a modern infrastructure able to support an introduction of new products ;
- the creation of a positive public image;
- qualified personnel that contributes to rendering efficient the activity of the company.

Regarding the companies that effect investments in order to increase their efficiency, their aim refers to⁸:

- a) investments that pursue the rationalization of the production;
- b) investments effected to obtain scale and range economies;
- c) investments effected to diversify the risk.

The first category includes the investments necessary to produce component parts or subsets in different parts of the world and to assemble them in the origin country. A reduction of the costs is thus obtained through the partial de-localization of the production.

The scale and range economy is given by a series of neo-factors, such as: competences, aptitudes, availabilities, and the quality of the industries downstream and upstream.

The diversification of the risk generally pursues to reduce through different methods the risks at the level of company. An example in point could be represented by the currency risk.

The investments effected to purchase strategic assets aim at buying the companies abroad in order to accomplish the company's long-term objectives. Thus is supplemented the portfolio of the company that reinforces its position, and at the same time weakens the competitors' position.

An example in point was represented by the merger accomplished by Novartis Company in April 1996 with two Swiss producers, Ciba-Geigy and Sandoz. Through this merger, Novartis became the second pharmaceutical group, after Glaxo-Wellcome.

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4. Munteanu C, Horobet A – *Transnational finances*, All Beck Publishing House, Bucharest, 2003

^{7,8} C. Munteanu, A. Horobet – *Transnational finances*, All Beck, Bucharest, 2003, p. 224