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MULTINATIONAL COMPANIES - BETWEEN HOPE AND DISILLUSION

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Abstract

The emergence of multinationals has created many controversies in the context of globalization. Opinions about their effects on the economy are shared - on the one hand, it is believed that companies pursue their own interest, exploiting poor and developing economies and on the other hand are voices supporting their development because they create jobs and the economies can benefit of goods and services at much lower prices than those found on the local market.

Keywords: globalization, multinational companies, foreign direct investment, internationalization, positive aspects, criticism

Introduction

Globalization is one of the most important part of the world's economy in the 21st century. This concept does not have its own definition, but it is explained by the elimination of the barriers between the states' economies and implicitly the intensification of their relations (Postelnicu, 2000).

Globalization is manifested in various forms such as foreign direct investment, international trade, financial markets.

Foreign direct investment has been encouraged by privatization, technology, telecommunications and the liberalization of policies aimed to facilitate the investor's organization in management department. Technological progress has enabled segmentation of departments, allowing large companies to choose the place that meets the most favorable conditions for their development.

International trade has grown predominantly between 1950 and 1994, when production has increased approximately 5 times, the most important fact being the free movement of goods and services between countries.

The activities of global financial markets have also developed, helped by information systems and technology, the benefits of globalization being questioned when financial crises emerged.

In “The Economist” magazine (January 2000), multinational companies have been portrayed as an important part of economic progress, spreading wealth, advanced technologies, jobs, and being able to help to raise living standards.

Were identified four stages in the evolution of a company (Papp, 1991):

- National Enterprise
- International Enterprise
- Multinational enterprise
- Transnational enterprise

The multinational enterprise

The multinational enterprises are economic systems developed by previous international corporations or created over the last decades, owning tangible and intangible assets - capital invested in goods and services production, research and development capabilities, advanced technologies, organizational and management practices, business links conducted and held in the country of origin and other countries. These systems are large and contain more geographic areas. They are made up of mother companies and subsidiaries in their country of origin and other countries. Any of these core components may be made up of several businesses, not only one (Voinea, 2001). Multinational enterprise systems generate not only goods and services, but also invested money, new technology, innovation and training skills for using their own technology, organizational and management practices - all aimed in enhancing competitive potential, profitability of enterprises and the entire system. This type of system is not closed, but interactive with systems of other multinational enterprises.

The stages of internationalization of the companies are:

a) Receiving external orders: if the company observes from the outside a considerable demand for its products or services, it creates a favorable environment for honoring orders helped by intermediaries, the main object is to solidify and maintain the connections with requesters;

b) active export: active involvement in international sales;

c) direct export: at this point goods and services are directly delivered to buyers or foreign importers, without intermediaries;

d) establishment of subsidiaries in host countries - companies are promoting operations, concluding with international sales contracts; Establishing subsidiaries abroad helps on the following: to reduce transport costs, customs duties, low wage costs. Also the companies are able to take advantage of facilities offered by the host government (UNCTAD, 1996);

e) production - developing a long-term business strategy, finding methods of promotion and distribution

f) integrating subsidiaries into a corporate system - planning, organizing, staffing, controlling international operations

Since 1969 the number of multinational companies has increased for about 3 times.

Considering cultural diversity, companies promote certain values to help them integrate into the places where they operate. Among these values we can find: the environmental concern, involvement in community life, equality of chances, ethics, etc. (Popa & Radu, 1999).

Companies take a responsible role when it comes to the ethics and honesty of doing business in host countries. It provides support in various sustainable development projects and engages also in those that support education, art and sport.

The most important goal to achieve a solid and sustainable business is to gain the trust and respect of the citizens of the host countries.

From a political point of view, there are two scenarios that multinationals meet. In some countries, the arrival of the companies was enthusiastic, while in others it was viewed with skepticism. In the past, they were seen as a form of exploitation of the states in which they were operating, but nowadays these ideas are losing consistency due to their positive effects and economic involvement on national markets.

There are governments that promote the transfer of technology and corporate culture, even if in Eastern Europe there is still a fear that Westerners invest only to exploit low production costs and cheap labor. We can also speak about the fact that multinationals have

greater economic power than domestic markets, which leads to the elimination of local firms over time, because they cannot keep up with the big corporations' lower prices. Another concern of the host states is related to the profit repatriation, some reacting and imposing a limit.

After 1989, Romania showed interest in attracting corporations, the main causes being the need for financial resources, the need for new technologies and managerial know-how. After 2007, economic analysts observed a significant increase of the number of multinationals in the economy. (UNCTAD, 2018)

The impact of multinational companies

Considering the positive aspects of the economies of the host states, we can enumerate the following:

- The companies are creating jobs around the world. Domestic investment of multinational companies creates the necessary foreign currency for emerging economies.
- Their operating dimension allows them to benefit from economies of scale that allow lower costs and lower prices for consumers. (Vernon, 1966)
- Their large profits can be used for research or major projects that are costly and risky.
- The success of multinationals often occurs due to consumers who prefer to buy goods and services where they can rely on minimum standards. For example, if you visit a foreign country where you can find the same type of shop as you can find in your country, it will offer you something that you are familiar with and the expectations would be met.
- Products with a global domination have a universal appeal. The big brands have reached the high level on the market thanks to the satisfaction of consumers' preferences.
- The foreign direct investment contributes in creating capital flows to poorer and developing economies. It also creates jobs, even if sometimes wages may be lower than the standards of the developed world. Although there are better jobs than alternatives found on the local market.
- Outsourcing - means lower prices for consumers and creates new sources of employment; this increases the available income of households in the developed world and allows them to buy more goods and services.

At the same time, there are many criticisms of multinationals, such as:

- Some companies are interested more on the profit than the consumer
- Many multinational companies have set up companies in countries with the lowest tax rate, this may lead to tax evasion;
- Outsourcing the business into cheap labor economies has caused job losses in the developed world. This is a problem because many multinational companies have outsourced their production around the world.
- In emerging economies, over the time, large multinational companies can eliminate local businesses;
- In the garment industry, multinationals have been criticized for taking advantage from the people - workers being paid less in relation to the work they have done.
- Searching for profit, multinational companies often contribute to the pollution and use of non-renewable resources, which jeopardizes the environment. (Postelnicu, 2000)

Conclusion

Considering the big process of globalization, we can see how economies are constantly changing. Each state must try to keep up with the developed states, so can be integrated and considered in standing at the global "board of leadership".

We can say the intensification of multinational activity is part of the root of globalization, although the main activity is being improved in developed economies and their presence should not be neglected.

Competition has reached a high level when multinational companies and global industries developed, because they can significantly affect the local markets. A global strategy can be seen as increasing interdependence between activities in different countries.

Some might consider these big companies a necessary evil. For example, a company comes to a country and opens a subsidiary, targeting, of course, the facilities offered by the host government and the cheap labor force. There are 2,000 people hired, and the projects that are running have a limited term that can be extended. After 7 years, the company decides to move to India (because their costs are much lower) and announces employees within one year, that they must find a new job, and those who stays until the end of the activity will receive compensatory salaries for the next 6 months. The number of people who remains until the end of the activity is 500. At the end of that period, 500 people will remain unemployed at the same time, which will have a major impact on the economy of the host state.

This scenario can be seen from the point of view of the company, that wants the best for its development and for its profits accounts, as well as from the perspective of the host state, which after the departure of such an investor must face the gap from the economy.

We consider that Romania has a very good strategic position, there are people with high level training and that is why many companies have chosen to invest and develop here, with wages varying quite a lot. Students are often eager to gain experience and develop both personally and professionally during or after graduation. For example, in 2015, there have been situations where a multinational has offered students and graduates a salary of 820 RON (175,96EUR). Salary from which they could cover only the monthly rent. We believe such situations should be avoided. We believe that if Romania would have been a part of Euro Zone or would have had a strong currency, would have been a more careful selection of the companies that would have chosen to invest here, because at that point we could have considered only the probability that this country was chosen for its resources, intelligence, capabilities and opportunities.

Also, there are multinationals that promote ethics and care for employee welfare by investing in its development, but there are also companies that use moral values just to promote an unreal image of their firm.

In nowadays, ethics and morality lead us to a sensitive subject, particularly for those who have never put them into practice. There are voices who firmly support moral laws, but when certain circumstances arise, they go on the principle that they can make an exception.

The responsibility to make a better world is concluded in the changes that each one of us can make every day for ourselves and also for the society we are living in.

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