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THE SPECIFIC OF TRANSNATIONAL CORPORATIONS' ACTIVITY IN THE GLOBAL ECONOMY

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Abstract

The article considers the phenomenon of transnational corporations and specific features of activity of such companies. These features are divided into two groups: economic and legal ones. The aim of the article is to make a conclusion if these features correspond to real transnational companies or not. As an example, «Gazprom» is analyzed as a member of the rating of five hundred leading transnational corporations made by British newspaper «Financial Times».

Keywords: globalization, transnational corporation, intracorporate transfer pricing, safe currency speculation, international marketing, benchmarking.

Introduction

Nowadays, the process of world economy globalization can be observed everywhere. This process is developing in many areas, one of which is the creating of transnational corporations and their increasing role in foreign economic relations.

Since the appearance of transnational corporations, the number of such companies has grown exponentially. Transnational companies highly influence the role determination of different countries in foreign economic relations. Their manufacturing, investment and trade activities give such corporations an opportunity to play the role of international regulator in the processes of producing, distribution and redistribution of products in the whole world. Annual turnovers of «General Electric», «General Motors» and «Ford Motors» exceed the national income of many sovereign countries and if we take into account the international nature of their operations, we can affirm that

transnational companies have superiority in the control of virtually all national authorities.

The main goal of this study, the results of which are presented in this article, is an analysis of transnational corporations' activities in the global economy.

Materials and methods of study

The present study is based on an analysis of:

- ✓ the scientific literature on the peculiarities of the development of transnational corporations;
- ✓ rating of five hundred leading transnational corporations published by the British newspaper «Financial Times».

A transnational company is a complicated, constantly changing and developing phenomenon. Most scientists confirm that there is a necessity to monitor the transformations of such companies, to study the specifics of their activity and to control them on an international level. But the many sides of this notion is the exact reason why researchers cannot compose a general definition which would represent all the aspects of transnational corporations. An analysis of literature gave an opportunity to make our own definition by integrating different scientists' opinions and the features of transnational companies. So, a transnational corporation is a company engaged in manufacturing and trading activities in more than two countries (in which it transfers the decision-making rights to managers of the receiving side), that occupies a leading position in key markets and is characterized by a high level of internationalization of the staff and top-management.

The main specific features of transnational corporations were divided into two groups: economic and legal ones.

The economic ones include:

1. The monopolistic position of transnational corporations on international markets, which is explained by the presence of special economic conditions in which these companies operate [1];

2. The existence of an intracorporate transfer pricing mechanism, which is the sale of goods or services within a group of related parties at prices that are different from the market ones [2];

3. The possibility to carry out safe current speculations by transferring free financial resources between branches in different countries when the exchange rate is the most conducive [3];

4. The relative stability of transnational corporations' positions to the influence of the marketing environment, which is explained by the ability to cover losses of one branch by the profits of another. By the way, a parent company is always protected by subsidiaries [4];

5. The active involvement of transnational corporations in the world hierarchy of R&D, which is less risky for them because of huge financial resources and the presence of different ways of earning income [5];

The legal ones include:

1. The discrepancy of economic content in legal form, which means that formally the parent company and its subsidiaries must obey national jurisdiction of a home country but, actually, a transnational company is a multinational transboundary enterprise [6];

2. The branches of a corporation are more related to a parent company than to a national jurisdiction of a home country [7];

3. Conducting formal operations with governments as business partners [8]. Transnational corporations create the geopolitical reality and are real competitors for the traditional system of government [9].

To confirm the obtained results and prove a compliance with the above specific features we made an analysis of one of the transnational corporations. It should be noted that the legal features of transnational corporations are deeply connected with the jurisprudence, so in this article we do not review them because of insufficiency of knowledge.

Every year, the British newspaper Financial Times publishes a rating of five hundred leading transnational corporations. This rating has become the base for choice of a company to make the analysis. We made a decision to explore the Russian corporation «Gazprom», which is 170th in the rating.

Results

«Gazprom» works in oil & gas producing. Its main activities are exploration, extraction of oil and gas, transportation, storage, raw material refining and sale of gas and other hydrocarbons, as well as production and sale of electricity and thermal energy. Being a Russian corporation, «Gazprom» has a big number of branches in Russia and subsidiaries in 12 countries of the world [10]. The annual turnover of the corporation amounted to 95.9 billion \$ in 2015[11]. There is no doubt that PJSC «Gazprom» can be considered as a transnational company.

«Gazprom» is an indisputable monopolist on the Russian market. Before the end of 2013, the company had a monopoly on the export of any gas from Russia. Today «Gazprom» has the right to be the only exporter of pipeline gas [12]. According to a statement of «Gazprom», the corporation is one of the main suppliers of natural gas to European consumers, which provides about two-thirds of the total gas import to Europe. The confident position of the company in the world market is confirmed by comparing its financial results with those of main competitors (see table 1).

«Gazprom» actively uses an intracorporate transfer pricing mechanism. An estimated scheme of its application follows a traditional model: a refinery factory receives raw materials from one of the holding members at a corporate price. Then the factory sells an end-product to consumers at market price (see figure 1) [13].

Table 1. Financial results of «Gazprom» in comparing with those of main competitors (data for 2015) [11]

Company	Market value, \$m	Annual turnover, \$m	Net income, \$m
1. Gazprom	56 569,8	95 924,6	2 739,6
2. Eni	62 954,9	132 825,9	1 561,1
3. Statoil	56 499,9	81 189,8	2 930,2
4. Exxon Mobile	356 548,7	364 763,0	32 520,0
5. Royal Dutch Shell	192 134,9	385 634,5	13 621,1
6. Chevron	197 381,3	191 755,0	19 241,0

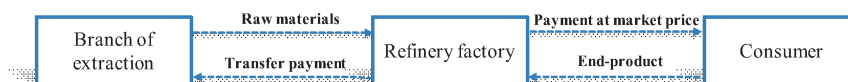


Figure 1. Rough sketch of the intracorporate transfer pricing mechanism in «Gazprom».

To make an analysis of stability of «Gazprom» to the influence of marketing environment we decided to compare its financial results during the World Economy Crisis (2008-2009) and the same indicators in 2007 and 2010 (see figure 2).

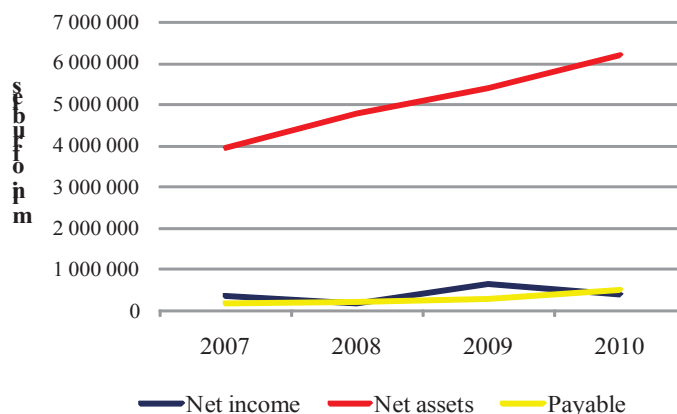


Figure 2. Dynamics of «Gazprom» financial indicators from 2007 to 2010

The chart shows that the net income of «Gazprom» decreased in 2008 but then in 2009 it raised, which means that the company has the ability to recover after the impact of negative factors. The growth of an amount of accounts payable could be a sign of company’s agreements to increase the

credit periods. Finally, the growth of net assets indicates a rise of stability of «Gazprom». All of the above gives the right to make a conclusion that «Gazprom» has stability to the influence of marketing environment.

«Gazprom» actively participates in R&D. R&D programs for the parent company and its subsidiaries are developed in the company each year. «Gazprom» is trying to enlarge the size of investments to a sphere of R&D from year to year.

The main directions of innovative activities of «Gazprom» are [10]:

- development and implementation of technologies to enhance oil recovery from existing fields;
- increasing the percentage of the domestic high-tech equipment in the supply of material and technical resources;
- replacement of foreign machine-building equipment to Russian ones.

In conclusion, the analysis of the Russian transnational corporation «Gazprom» proved that main specific features of transnational corporations, inferred from our study, are indeed inherent for such companies.

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