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MULTINATIONAL CORPORATIONS' BUSINESS OPERATIONS IN THE KNOWLEDGE ERA

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Abstract: *This paper deals with the specific features of multinational corporations' business operations in the conditions of the new economy. Having in mind the actual nature of the process that the developed countries are undergoing, the paper begins with an analysis of technological complexities and the significance of behavioral research, as well as of pressures of international competition that are causing changes within corporations over time. Particular attention is devoted to elements of multinational corporations' competitive advantages, based on intangible assets: experience, information, know-how, management capabilities, brand name, image, reputation, organizational culture, consumer loyalty, trust, consumer preferences, etc. Under the conditions of the new economy, the concept of the learning organization has become a necessity for corporations, so that they may develop their competences and, thus, rise to new management challenges.*

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1. Introduction

Under the conditions of the new economy, corporations, social and ethnic groups and institutions are developing a multitude of different links

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with the external environment. As societies are becoming more heterogeneous, they are increasing their exports, imports, communications and exchanges of information with other parts of the world, and forming more joint companies, strategic alliances and associations.

In such a conglomerate of constantly rising interdependence and hyper-connectedness, it is especially interesting to see how corporations are institutionalizing innovations and creativity. Namely, in developed economies, in which success is dependent on technology, interdependence and competition, adaptability and innovativeness are becoming the most prominent characteristics among successful people. To manage as much work as possible, to participate in all the most important decision-making, to expand one's spheres of influence both within the corporation and without; classical leaders have often identified the autonomy of their will with the interests of the corporation. However, in this world of dynamic interdependence, their ties to the corporation according to the principle of total devotion in exchange for lifetime security have outgrown the bounds of rigid dependence, developing into the more liberated forms of "builders of their own personality." [8]

Technological complexity, the significance of behavioral research and the pressures of international competition have caused changes in corporations over time. Today, more is being sought in terms of innovations and strategic thinking. The corporation cannot allow self-seeking careerism. The individualism that sparked risk-taking and entrepreneurship itself has become an obstacle to competitiveness. The era of builders of their own personality is not only the future of corporate management, stimulating and rewarding individual initiative and constant individual improvement, but a new hope for the future of mankind, where knowledge, mutual respect and support will be the "price" of human survival.

The corporation is an association of shareholders, formed according to the appropriate regulations, which wields business power. In the eyes of the law, it is a single entity – a legal person. The main characteristic of a business organization is the legal separation of the corporation from its owners. Its business operations are the ownership of its shareholders, who have limited business liability, which means that their personal property is not subject to any obligations emanating from business operations. They elect the board of directors, which elects the manager, and that is how the separation of the ownership and managerial structure comes about. This form of business organization is the most widely accepted form of business organization today. The eminent author Cerne writes that "corporate (shareholder) capitalism represents an abolition of classical privateproprietary capitalism and an affirmation of group-ownership, managerial (technocratic) capitalism.” This definition points to the conclusion that the main characteristic of this form of business organization lies precisely in the separation of the corporation from its owners. In a corporation, proprietal liability is limited by the size of the stake or share in ownership. Limited liability holds significant advantages over an individually owned company or partnership. The owner’s private property cannot be seized on the basis of a claims contract. Capital may be raised in the name of the corporation without exposing the owner to unlimited liability.

Back in 1819, Justice Marshall wrote: “A corporation is an artificial creation, intangible, invisible, existing only as a figment of the law. Since it is a pure creation of the law, a corporation can possess only those characteristics that are provided by law, whether they are explicit or appear incidentally, through its very existence.” Ownership of a corporation is proved through company shares, which represent their owners’ proportional share in relation to the total number of shares in circulation. Shares are also easily transferable, which means that ownership is easily transferable, which represents another important advantage for this form of business organization. Also, the life of the corporation is not limited by the life of its owners, because the corporation exists separately from its owners.

The sudden expansion in the number of corporations during the last century was a result of numerous advantages, of which the most conspicuous ones were: limited liability for owners, simple ownership transfer through the sale of ordinary shares, unlimited lifetime and the ability to raise capital separately from the owners. In addition, it turned out that individually owned companies or partnership companies experienced serious problems in securing necessary capital for further development, which further influenced the development of the corporation as the most important organizational form. [1]

A public or open corporation offers its shares to the public, thus making them available to all interested parties. The main owners of a public corporation are the majority shareholders, i.e., the shareholders who own the majority of shares.

A corporation has limited liability. In England, the abbreviation “Ltd.” is used in place of “Inc.” – denoting a Limited Liability Company. That means that only the corporation’s property can be used to cover its obligations. If someone owns shares of a corporation that is not returning its debts, such shares may become worthless, but the shareholder cannot lose more than the value of his shares. Liability is limited to the purchase price of the shares.

A corporation has the advantage of gathering together many owners with various skills, knowledge and talents. In small corporations, shareholders may also be employees and share in the responsibility, i.e., they may carry out various tasks, such as bookkeeping, sales, etc. Ownership is easy to transfer in a corporation – simply by selling shares through a broker, stock market or private sale.

A corporation is a rather complex organization with relatively high costs. Transformation of an organization into a shareholding company may be of negligible value to the owners, when it comes to small businesses. As a rule, corporations are subject to higher local and other taxes, they require legal services, and more complex documents and reports that have to be regularly submitted to state and other organs, etc.

State regulations for corporations are more detailed than for other forms of business organization. A corporation's business operations are subject to the control of an authorized auditing organization, whose report is published publicly. Profit is distributed between shareholders after taxes, in the form of dividends. Corporations pay taxes on their profits, while the shareholders also pay taxes on the dividends from that profit.

2. Specificities of Multinational Corporations' Business Operations

There is a general consensus around the view that today's multinational corporation is a complex and important institution. Such concurrence is usually based on the conspicuous size of the largest companies. However, there is much less agreement regarding its attributes, and regarding how and why it developed to take on its present configuration. The study of the modern corporation, which may be understood as a product of a series of organizational innovations toward the goal of maximum rationalization of costs, should deal with the factors that contributed to its development, as well as the economic goals and utilities that are satisfied through the adoption and implementation of such a means of organization of production.

Multinational companies that control and manage production in multiple countries enable business companies to transfer capital, technology and organizational skills from country to country, thus restraining competition between companies from different nations.

Hence, a multinational company may serve both the above-mentioned purposes. However, it is useful to think about whether the overall character of a multinational company's investments, in terms of their distribution between branches of industry, is consistent with efficiency-related goals (transfer of capital, technology and organizational skills) or with the hypothesis on oligopolistic limitation.

Oligopolistic goals may be realized by way of portfolio investments, with limited engagement on the part of management. Actually, foreign direct investments and the organization of foreign branches within the M-form structure are not necessary means for limiting competition. If the limiting of competition is the main goal of such investments, than it would be the concentrated industries – including the tobacco, glass-producing and steel industries – rather than those tied to faster technical progress that would be active in creating multinational companies.

Multiple data connected with total foreign assets and sales, numbers of employees, as well as trends toward the home country and type of industry, confirm the dominant role of multinational corporations in the total investment and macroeconomic flows of the contemporary global economy.

Numerous theoretical approaches related to the essence of the functioning of multinational corporations are clearly indicative of differences between international and domestic management. The existing differences are a result of the fact that the management of a multinational corporation is done within the framework of various national sovereignties, under varying economic systems, with populations living within the framework of various value systems and institutions, and in widely varying national markets in terms of population and regions. The basic phases of multinationalization are shown in Table 1. [2]

Table 1. Six phases of multinationalization

Phase 1	Phase 2	Phase 3	Phase 4	Phase 5	Phase 6
Exports its products abroad	Organizes sales abroad	Sells licenses and its know-how to foreign firms that produce and sell its products	Organizes production plants abroad	Multinationalizes management on all levels	Multinationalizes ownership over the corporation's share capital

The functioning and further development of multinational corporations practically cannot be imagined without foreign direct investments. Managers who make the decisions about such investments consider them to be economically profitable because they: 1) reduce or eliminate high transportation costs, 2) allow participation in the rapid expansion of a foreign market, 3) secure foreign technical, planning and marketing skills and 4) bring high incomes and profits. However, independently of the said advantages, investing abroad is often connected with numerous risks, chief among which is political risk. That is why it is necessary to assess the political, economic and social factors that can bring risk to intended investments abroad in various ways.

Of fundamental importance to the development and progress of a multinational corporation is the existence of an educated, talented, enterprising and efficient management cadre. Just as the company is an essential part of society, so are managers essential for company success, regardless of company type or size. Managers' governance activities are directed toward making correct decisions in their daily efforts of planning, organizing and management, with the goal of achieving greater productivity and business efficiency. Although views regarding management in theory and practice vary, it is considered that the main determinant of the way in which competent managers can lead a multinational corporation is their stance regarding the management principles or practices they will adopt. Therein lies the difference, depending on whether the adopted dominant management practice is that of the host country, of international management, or simply the overall quality of management recommendations, between ethnocentric, polycentric and geocentric management approaches.

Understanding the potential value of these three viewpoints within a multinational corporation is extremely important. The ethnocentric approach, even though it has the advantage of keeping the organization simple, generally causes organizational problems, as it eliminates the return link of foreign operations. In some cases, the ethnocentric approach even causes enmity toward the host country within a foreign society. The polycentric approach may bring the advantages of building a foreign organizational segment in accordance with its culture, but it may also lead to significant shortcomings, creating numerous individual, relatively unequal and, thus, hard to control organizational segments. By general consensus, the geocentric approach most suits multinational corporation managers, as it promotes cooperation between foreign and host country managements, and stimulates the development of managerial skills regardless of the organizational segment or country in which the managers are working. All in all, organizations with a geocentric approach create organizations that contribute to a multinational corporation's long-term success.

From all the above said, it may be concluded that a special place in the functioning of a multinational corporation belongs to the management