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UDC 330.101

GLOBAL CORPORATION AS AN ECONOMIC CATEGORY*

SUMMARY. Global corporations which have sprung up due to the evolutionary development of corporations involved in large-scale international operations have a considerable impact on all economic processes and occupy a worldwide leadership position in the field of technology. The purpose of the present paper is to discuss specific aspects of the formation and evolution of global corporations. The author seeks to reveal the nature, essential features and evolutionary stages of the global corporations. The analysis of the existing scientific works shows that modern approaches to the global corporations are based on different criteria and fall into four groups: (a) a business globalization approach; (b) an institutional approach; (c) an evolutionary approach and (d) a competitive advantage approach. In contrast to widespread considerations about the size and scale of global corporations, this paper aims to emphasize an innovative nature of global corporations which have obtained their unique business advantages and strengths through developing innovations and putting them to use at the network-wide level.

KEY WORDS. Global corporation, globalization, international corporation.

At the beginning of the XX century, mankind entered the era of intensive globalization of the world economy. Its main manifestation is the creation of the integrated economic, political, social, innovational, technological and informational fields. Globalization is a new quality (in comparison with integration and internationalization) of economic, financial and trade interactions; a new stage of development of the global economy which no doubt affects all aspects and components of international relations.

As the world economy has evolved, the main vehicles of globalization – international corporations (hereinafter IC) have also changed. They have become global – not only in spatial dimension. We mean that these organizational structures

* The article was written as part of the scientific research carried out by groups of scientists headed by doctors of sciences – FTP "Scientific and pedagogic personnel of the innovative Russia" in 2009-2013 on the topic "Formation and Development of the regional innovational ecosystem" GK 14.B37.21.0972.

being a product of globalization began to function within the framework of a new paradigm [1; 14]. E.G. Kochetov underlines that, «the one who comprehends and adopts the new methodological approaches will be able to deal with situational management on the global geo-economic atlas of the world which lets perform the functions of the global businessman in the struggle for global profits, a major player on the world stage who understands behavior of cross-border economic and financial flows and is equipped with high neo-economic and geo-financial technologies” [2; 19].

This notion of a global corporation (hereinafter GC) attracts much attention. Nowadays, GC is the driving force of globalization. Their emergence, on the one hand, is a logical outcome of the development of the global economy and international corporations; and, on the other hand, they are a major factor of the formation of the global economic network.

International corporations have made evolutionary development in which their forms and spheres of activity, intra-organizational structure and strategies have been modified. In this context, the historical development of corporations as a precondition for the GC genesis has become the starting point for the study of GC as an economic category.

Different economists single out about 5-7 IC generations. To our mind, the fullest classification of the generations of corporations has been presented in the work by A.V. Vorotneva and A.P. Dubnova [3; 30]. On the basis of the analysis of the works of the abovementioned authors we suggest a periodization of GC evolution consisting of 4 stages. The general criterion for the division of the given stages is their reaction to the large-scale changes in the technological development and appearance of new technologies and sectors of the global economy linked with the scientific progress as well as development of the infrastructure of the global economy (automation, computerization, global logistics and communication).

I stage (1960s — 1970s). Using achievements of the scientific-technological progress (STP), support of their states and advantages of cross-country cooperation in the production sphere, international corporations increasingly focus on foreign trade which becomes the main source of profit for them. In this period many international corporations become the vehicles of technological progress in peripheral countries employing local scientists and engineers and entering into partnerships with local firms through their integration into the corporate structure. International corporations acquire qualitatively new properties at the stage of GC genesis:

- rejection from the clear orientation toward a specific industry;
- close ties of the industrial, financial and commercial capital and science;
- activation of the processes of standardization and unification in production, R&D.

Corporate groups and conglomerates become the main organizational form. In this period economic conditions for the emergence of foreign production with the integrated market and informational space, international capital market, work force and scientific technical services are established.

II stage (1980s-1990s). At this stage GC are characterized by the following qualitative characteristics different from the ones considered at the previous stage:

— aggressive innovation and dynamism, continuous improvement of the intra-organizational structure, efforts to penetrate into not only separate market segments but the key spheres of economic activity regarding production and distribution [4; 173];

— coordination of the activities of its branches on the basis of network information; technologies, adaptability and flexibility of the whole organizational structure of corporations, merging of subsidiaries and joint ventures into a single international administration network which is integrated into general corporation networks;

— use of global production factors (380 largest corporations accumulated 40% global resource potential and 80% technological innovations [1; 140]);

— creation of the global system of international production centers scattered in most of the countries around the world;

— exercising economic and political influence over the countries hosting subdivisions of the corporation.

This stage is characterized by a wide range of mergers and takeovers, which take place due to appearance of new financial tools in the world market.

III stage (1990s — till present time).

GCs are as powerful players on the global stage as nation states. Owing to the Internet development as a new sphere and form of doing business, GCs modified their own structure and system of communications promoting effectiveness of both GCs and world markets. Modern GCs are characterized by the following features:

— dispersion of production facilities in many countries;

— GC penetration into the key economic sectors, the fast development of which requires large-scale investments and attraction of highly-qualified staff;

GCs serve as technological leaders and promote scientific and technological progress via technological expansion through networks of its subsidiaries.

IV stage — forecast (2020s — 2050s).

We can expect development of planetary corporations which will integrate the processes of globalization, re-organization and computerization of the global economy. The future of the global-planetary corporations is linked with the exploration of space energy resources and development of systems of strategic arms [3; 30].

Thus, GC genesis occurs in the XX century. Nowadays, global companies are at the 3rd stage of their development. A specific feature of modern GCs is the fact that they are key figures in the global economy and can exercise great influence on the processes of the world economy development and evolution of the global economic system. They form a group of strategic innovators who are the leaders in production and distribution of knowledge and technologies around the globe.

Now let us turn to the consideration of the theory of international corporations which was formally established in the 1960s, though the grounds for it appeared much earlier [5]. On the basis of critical analysis the existing concepts of international corporations development can be grouped as follows (Figure 1):

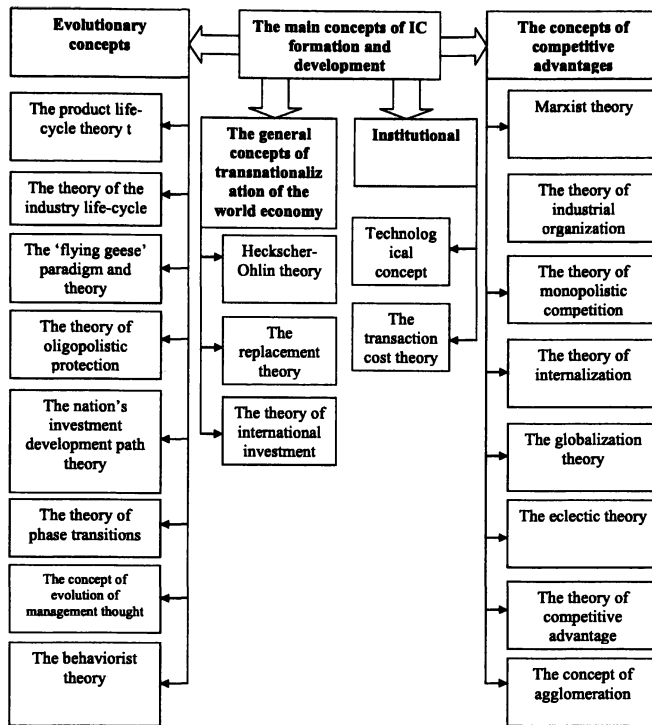


Figure 1. The main concepts of the formation and development of international corporations

The comparative analysis of the concepts shown in Figure 1 lets conclude absence of a complex estimation of the degree of influence of all the factors on the development of multinational corporations (each concept explains the striving of firms and countries for transnationalization and globalization of their activity, emphasizing this or that factor), even supporters of one and the same approach interpret its emergence and evolution differently due to the complexity and multidimensionality of the phenomenon in question. However, the majority of researchers admit the leading role of corporations, contemporary GC in particular, in the world economy, linking their competitive advantages with monopolistic nature, technological leadership and global governance of economic activities.

Let us dwell on the existing GC definitions and IC classifications which will help us perceive the essence of the notion under study. Such Western economists as R. Barner, G. Robinson, P. Samuelson, K. Savan and L. Turner, and R. Robinson [6] believe that all corporations can be divided into national and transnational. Transnational corporations, in their turn, are classified into:

— international (transnational) corporations — national corporations with foreign assets. Due to their foreign branches and subsidiary companies their manufacturing and commercial activities exceed the bounds of one country (according to Western economists, «Ford», «Exxon», and «Nestle» belong to such corporations);

— multinational corporations — corporations incorporating firms with foreign capital of different countries on the basis of operational, scientific and technological cooperation. In doing business, they allow a high degree of independence for their foreign subdivisions (for example «Royal Dutch/Shell», «Fiat — Citroen», «Phillips»).

As far as international law is concerned, the distinctive features of a multinational corporation are:

- 1) focus on foreign markets;
- 2) multinational share capital;
- 3) multinational administrative center;
- 4) staff aware of the local regulations in the administrations of foreign branches [7; 45].

In this classification it is logical to single out global corporations (GC) encompassing economic activities which are carried out in different countries. Global corporations are viewed as having no definite national identity and independent from the country of their origin. We can name three most often mentioned features of GCs [7; 45]:

1) a corporation actually produces and sells a global product; consequently, its market is the whole world;

2) a company creates industrial facilities in any part of the world, i.e. location of its production activity is the whole world;

3) the basic functions performed within a corporation are distributed in different countries for the purpose of their better performance; as a result location of the economic activity of GC is the whole world.

This classification of corporations basically reflects the stages of their development. Generally speaking, the borders between the types of corporations in question are rather vague and transition of corporations from one type to another is possible.

J. Galbraith, H. Perlmutter, S. Brown and R. Vernon [8], [9], [10] classify corporations depending on the principle of relations between the mother company and its subsidiaries singling out ethnocentric, polycentric, regiocentric and geocentric types of relations. GCs are characterized by the geocentric type of relations: the mother company sees itself not as the center of the international corporation (like in the previous types), but as one of its parts only.

Such corporation presents in itself a decentralized federation of regional branches. It operates on the global stage.

According to the classification of the famous marketing expert F. Kotler, GCs belong to one of the types related to transnational corporations. GCs act globally on the basis of universal concepts of management and centralized structures. Developing a strategy for their activities, GCs rely on technologic leadership in the aspect of the final product and production processes as well as create the unified global systems of logistics and communications [11; 10].

The well-known American researcher M. Porter characterizes global corporations as follows, “They pursue a really global strategy: sell their products all over the world; find source materials and components all over the world; locate production units in many countries; enter into alliances with firms of other countries in order to get access to the sources of their power” [12; 33].

According to the Russian economist A.A. Strizhenko, global corporations manufacture and sell goods in different countries using the same products, production process and strategy in all the markets [1; 83]. Thus, if a company sells a product in the domestic market and exports the same product to other countries, the lifecycle of the product increases and production expenditures, correspondingly, decrease.

The aim of GC is to make the production process, sales and distribution channels standard in all the markets. Typically GCs have no difficulties with the production process standardization; standardization of sales and distribution channels is more challenging. Nowadays, the majority of the largest companies in the world are global; however, not a single one achieved the ideal model. The problem is that corporations experience the so-called uncontrolled factors (factors hindering globalization): competition, distribution, work force, technological, social and cultural, economic, social-economic, financial, physical, legal, and political factors. In order to ensure oneself against losses connected with sudden changes of one or several abovementioned factors, GCs use a method of triple diversification:

- 1) resource markets;
- 2) sales markets;
- 3) capital markets.

Two more aspects can be singled out: diversification of the labor market and RD market; thus, turning this method into a 5-dimensional diversification of GC economic activity (risk reduction model).

Using this model GC will never find itself in a deadlock in case of sudden changes in one of the markets as there will always be markets where the necessary transactions can be performed. Besides, negative changes in some markets can be compensated by positive changes in the others.

N. Popovich suggests another definition of GC in his monograph “Strategies of the global corporation”. He claims that, “no doubt a transnational company (TNC) is a global corporation. But this is a TNC of a special kind” [13; 14]. He classifies all TNCs into “strong” and “weak”. Winning the market a “weak” TNC uses the tactics of its gradual development: study the market structure and potential consumers and then adapt its product to their needs. “Strong” TNCs (global corporations) win a market at once actively using the old, well-proven mechanisms. It is exactly the global corporation that doubtlessly possesses unique properties necessary for mastering new products and innovations.

Practically in all the definitions GC is treated as a corporation operating globally (all over the world) and consequently the key participant in international economic relations.

As one can see from the abovementioned definitions of GC, each has its own peculiarity: some economists link GC with manufacturing of standardized products; others see globality of a company in the scale of its operation (regardless the type of product), others pay attention to significant R&D expenses and innovations distribution through a network of subsidiary companies.

In conclusion, summarizing approaches of different researchers to the definition of the category of the “global corporation”, we can identify the following features of GC distinctive from other types of international corporations shown in Table 1.

Classification of international corporations on the basis of different peculiarities*

| Characteristic feature | IC (international corporation) | MNC/TNC (multinational/ transnational corporation) | GC (global corporation) |
|--|--|--|---|
| Organization structure | Vertical integration | Vertical and horizontal integration | Diversified |
| The type of relations between the parent company and its branches | Ethnocentric | Regiocentric | Geocentric |
| Attitude towards foreign markets | Expansion of the market of the parent company | The most significant market if compared to domestic one | The whole world is the field of operation of the corporation |
| Personnel policy | Mainly specialists of the country of origin, employees of the parent company | mainly specialists of the host country work in the foreign branches | Highly qualified personnel from around the world |
| The level of centralization in decision making and control over the activity of the branches | High centralization level and strong control over the branches | Medium centralization degree, poor control over the branches | Low centralization level (decentralization), low control over its branches |
| Information flows | Unidirectional (from the parent company to its branches) | Reciprocal but insignificant | Extensive equi-directional information flow between the parent company and its branches |
| Innovation activities | Insignificant, only to maintain the lead in the domestic market | Significant in the parent company, but insignificant in the branches | Significant, includes both in-house R&D and its outsourcing |
| The level of influence on the world economic processes and socio-economic sphere of the host countries | Low | Medium | High |

* Based on critical analysis of the works of E.F. Avdokushin, A.A. Strizhenko and others.

On the basis of analysis of various approaches to the definition of the category of GC and its role in modern economy, we suggest the following definition: a global corporation is a complex integrated unity of corporate structures with the geocentric type of interrelations, diversified organizational structure carrying out its activity in one and more often several fields on a global scale and being a leader in innovations and vehicle of the scientific and technological process via distribution of knowledge and new technologies all over the world through the network of its subdivisions and exercising great influence on world economic processes and nation states.

Thus, having studied the processes of genesis and evolution of GC as well as different definitions of the given economic category, we can conclude the following:

There is no complex estimation of the degree of influence of all the factors on the GC formation and development, each concept differently explains the striving of firms and countries for transnationalization and globalization of their activity, emphasizing this or that factor. Even supporters of one and the same approach interpret GC emergence and evolution differently due to the complexity and multidimensionality of the phenomenon in question.

Practically all researchers admit the leading role of IC, contemporary GC in particular, in the world economy, linking their competitive advantages with monopolistic nature, technological leadership and global governance of economic activities.

As a result of analysis of various approaches to the definition of the category of GC a definition of the global corporation was suggested. In this definition the main feature of GC is not so much operation on a global scale but acquisition and application of unique advantages of the global nature of activity due to innovative operation and distribution of results in the whole network of GC subdivisions.

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