Multinational Companies as a Business Internationalization Driving Strategy: Implications for Competitive Advantage and Business Values

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Abstract

This paper analyzes and presents Multinational Companies as a business Internationalization driving strategy with a focus on their implications for business values. The research methodology began with a literature review then there was a focus on data analysis and description. The research questions are "what are the characteristics of multinational companies for business internationalization?" And "what implications, reasons and goals are there?" Some of the results illustrated that multinational companies are very important for business internationalization since they are one of the main internationalization strategy but they may face some restrictions, losses or possible difficulties in negotiations abroad. Taxes and the unpredictable risks may make them an object to sudden losses. In conclusion, Internationalization has been so far a relevant step for companies and businesses to leave the difficulties of domestic narrow markets and similarities. Some business operations of multinational companies such as outsourcing, licensing, exports or FDIs should focus more on the contracting process and locations.

Key words: business internationalization**,** multinational companies, implications, strategy, values
J.E.L. classification: A13, F20, F23, F60, M20, M21

1. Introduction

Normally, when companies decide to start expanding at a global or international level, they logically have to expand in other countries to take advantage of the advantages of low cost or the differentiation that allows them to expand their profitability, but in order for them to carry this out, it is very important that have an internationalization strategy. Internationalization allows companies to achieve at least a competitive advantage to increase their presence in the international market, therefore it is important that they are well designed and since based on this the company will be able to enter new markets to increase value or profit, the number of your customers and your sales.

Through internationalization, the company can introduce products or services to other countries that do not yet have them or do not have them. Globalization has gradually turned the world into one market and for ages it has undoubtedly followed various waves of industrialization. It moved the world and human society from simple energy resources such coal and wood to fossil fuels for industry as sources of energy and to sustainable energy and business, step by step it globalized the energy market. In fact, every step is accompanied by energy consumption, so the intensive use of energy has become fundamental in economy. (Benabed and Boeru, 2023). Globalization has relieved the spread and propagation of technology and information, thereby engendering new opportunities for innovation and development, emphasizing that the 4th and 5th industrial revolutions are evidence of it. In addition, it has led to concerns regarding privacy and security, as well as the possibility of job displacement and inequality. (Benabed and Boeru, 2023).

2. Literature review

2.1. Background of Multinational companies (MNCs)

Multinational corporations (MNCs) are a distinctive attribute and characteristic in the modern economy, occupying about one quarter of global output and one third of international trade (Jensen, 2006).Even if the global economy becomes increasingly integrated, their growing significant importance to the economic activity and role are likely to continue to expand despite the obstacle and interruption provoked by a recent financial recession and crisis. (World Bank, 2010) since they remain a significant motion from perfectly integrated global markets (Ghemawat, 2011).

Indeed, there has been much research on the role and progress as an institution of multinational companies (Bartlett and Ghoshal, 1989). Multinational companies or corporations' executives have struggled to define and determine a suitable role for headquarters to effectively reach values from international business operations or activities. There are frequent large scale reorganizations and reformations of Multinational companies' o corporations' headquarters that illustrate and show how uncertain many are as to the better influence and optimal structure of that entity (Bartlett, 1983).There are various international business scholars and strategists that have conceived to evolve and promote prescriptions for the optimal allocation of business activities between headquarters and the country's subsidiaries (Bartlett and Ghoshal, 1989). For them, the main challenge is the balance of the inherent tensions while the company operating internationally to achieve an overall effectiveness and dynamic arbitration by even maintaining the suppleness to match local markets' requirements and needs (Ghemawat *et al* ., 2007). This has led to specific recommendations concerning headquarters design that try to balance the requirements of centralization with decentralization (Bartlett and Ghoshal, 1989).

The international business literature began examining the significant and important role of headquarters in the multinational corporation by taking into consideration centralization–decentralization continuum as a way to sort out the classic inherent compromise and tradeoff in any multinational strategy between local responsiveness and global efficiency (Prahalad, 1975). Therefore, with a limited attention to the specific roles played by headquarters, the focus used to be on the level of delegation and mission of authority to the country subsidiary organizations as it is possibly best captured in Porter's notion of global and multinational strategy (Porter, 1986).

2.2. Multinational companies between internalization and internationalization

In fact, according to Fisch (2008) with regard to the option of international entry, the investment can be analyzed from the perspectives of internalization and internationalization. Internalization decisions address the share in capital that is chosen for entry such as entry by a minority or majority joint venture or a completely-owned subsidiary but Internationalization decisions relate to investing a certain amount of capital at the entry such as entering by a smaller or larger subsidiary but (Fisch, 2008).

Once companies want to go multinational by investing abroad, they need to decide about the time and type of market entry. It is highly important to choose the right moment and volume of international entry as its success might be affected by uncertainty. According to Buckley and Casson (1976) in the "Long-run Theory of the "Multinational Enterprise" , firms embrace the imperfections of international markets by internalizing business processes and concerning implicit knowledge, raw materials perishable goods or intermediate products. (Buckley and Casson, 1976) However, internalizing markets may lead to reduced economies of scale, problems of cross-border communication and discrimination by host governments. (Buckley and Casson, 1976). According to Williamson (1975) some researchers consider the theory of internalization together with the transaction cost view of markets and hierarchies (Williamson, 1975).

According to Cambridge dictionary (2023) Internationalization in literature is the act of including something when calculating the cost of a product or activity. (Cambridge dictionary, 2023The Cambridge dictionary (2023) states as well that the evidence against particular representations does not put a dent in the concept of internalization, and the proof against the general concept is impossible. (Cambridge dictionary, 2023). Internalization occurs when a transaction is handled by an entity itself rather than routing it out to someone else. This process may apply to business and investment transactions, or to the corporate world. (Chen, 2021). In business, internalization is a transaction conducted within a corporation rather than in the open market. Internalization also occurs in the investment world, when a brokerage firm fills a buy order for shares from its own inventory of shares instead of executing the trade using outside inventory. (Chen, 2021).

Mainly, according to Chen (2020) Internalization can also apply to a multinational corporation. This happens when the company decides to shift or switch assets between its own subsidiaries in different countries. (Chen, 2021). Furthermore, internalization can occur when an individual, business, or firm decides to handle an issue in-house instead of outsourcing it to a third-party. (Chen, 2021). Besides, companies may decide to internalize the production of a particular material on its own rather than having another manufacturer do so. This process is called internal sourcing, or sending products to customers through the business's own channels instead of using an outside shipping company. (Chen, 2021). Internalization is beneficial to a company as it cuts down the costs of outsourcing certain process such as selling products and services or manufacturing. It seems that the traditional approaches to international entry need to be enriched for a dynamic analysis. Buckley and Casson (1998) state that early models of the multinational enterprise did not foresee the rising importance of uncertainty in today's foreign direct investment decisions. Therefore, Buckley and Casson propose a new approach, the theory of real options. Rivoli and Salorio (1996) argue that the theory of real options involves the question of when exactly a foreign direct investment takes place after a location has been chosen for entry. (Buckley and Casson, 1998). Regarding business models for the international development context, we can identify two lines of significant studies, one more focused on e-business and the other aimed at defining models of wider application. (Benabed *et al.*, 2022).

3. Research methodology

The research methodology focused on a relevant literature review to this research and data analysis and description by creating two frameworks that illustrate Main reasons and goals for multinational companies' business (See figure no.1) and the main reasons and goals for multinational companies' business and the link with international business. (See figure no. 2).

The set research questions are:

RQ1: what are the characteristics of multinational companies for business internationalization?

RQ2: what implications, reasons and goals are there?

4. Findings

4.1. Business Internationalization and some companies' driving strategies

4.1.1.The multinational strategy is applied in multinational companies or those that want to be multinational that have been created or legally registered in their country of origin but also have others in different countries of the world and in the same way with this strategy the companies have production facilities but all its strategies, planning and, above all, the decisions that are considered the most important come from the matrix that is normally located in the country where it is founded. The multinational strategy favors the development of the countries where it is located since they generate greater production of goods and services, but what is most favorable is that companies can generate job opportunities.

4.1.2. The transnational strategy is somewhat similar to the multinational but with a difference in the purpose of producing or marketing its products in other markets. The transnational strategy is applied in companies that have a parent company and then expand to other countries in the world with the purpose of marketing their services or products in new markets and competing in the international market. On the other hand, to achieve a greater competitive advantage, companies use different activities such as research, development, marketing, production and commercialization to add values to their businesses.

4.1.3. The global strategy is a strategy that considers each country in which the company operates as a segment of the global market and has competitive advantages because they can produce products that have more models to achieve global efficiency but adapted to the needs of each market. . Global strategy is important and is used in global companies, which require a high level of coordination and centralization of the decisions made at the headquarters in order to fully exploit their competitive and strategic advantages.
In conclusion **,** the application of Internationalization strategies allow companies to increase their level of competitiveness, expand their growth, have lower costs and consolidate their products and brands, although companies must know that their application is not an easy process due to both legal and economic cultural differences of each country but above all because each consumer is totally different.

4.2. Positioning the company in the international market by implementing the necessary actions

A multinational company is a company that operates in several countries where it may have factories, offices or points of sale and normally there is a country where it begins operations and we can call that company a parent company and the rest of the countries where the multinational has been established and extended over time will be called subsidiaries.

Internationalization strategies are a system that is used to plan and implement actions that are aimed at fulfilling and positioning a company in the international market. To develop and apply any of the internationalization strategies well, it is necessary to go through the following stages: (See figure no 1):

Figure no. 1. Main reasons and goals for multinational companies' business

Source: Author's design and research, 2023

4.2.1. Analysis. Basically it should be important for the company to figure out about its current situation by going through an analysis so that it can make better decisions with the aim of boosting, optimizing or streamlining business processes, discovering new growth potentials or finding markets. For instance international companies according to their profile develop a long-term strategy that is sustainable and can optimize the customer satisfaction at an international level, the same thing could be possible for multinational companies.

4.2.2. Evaluation plan. The multinational company or any of subsidiaries or areas need from time to time to go through an evaluation plan to find out to rate it direction according to its activities.

4.2.3. International implementation. When the previous points are analyzed to make some changes in the company, this way since the company is prepared it can operate internationally, however it is important that the company takes into account that an implementation must be well carried out since it is constantly analyzed.

4.2.4. Intermediary service and commercial relations. At this point the company can establish relationships with suppliers, customers and management. All these aspects are very important for a company that is just entering the international market. So you can expand a company more quickly. For this reason, it is useful that in global trade there is the presence of local management who will be in charge of providing all the local knowledge so that the main company can enter the market, avoiding making mistakes that could be costly. On the one hand, increasing sales and minimizing failures in local management is also very important in the process of business internationalization. On the other hand, it is also important to have the human resources prices of the country to which the company is directing its products or services. In addition to this, it is necessary to take into account the regulations to which the company will have to adapt.

4.2.5. Technological innovations and application. Having the intermediaries of innovation and technology is a key factor in the success of many companies during and for the internationalization process. This key is a necessity for rapid growth and for companies to reinvent their products they also have to have oriented innovation by adding new features and new ideas.

4.2.6. Strategies. For the company in order to be able to transform a business, it is very necessary to focus on key competencies, therefore a well-chosen and effective strategy would be a way out that can perhaps minimize tangible and intangible losses.

4.2.7. Measuring results. When the company has implemented strategies in the international market, a period must be established in which the results can be measured because this way it can be known if the objectives are being met correctly and actions are necessary to modify or eliminate what was achieved. It can cause harm or be a risk to the growth of companies, their profits and their business.

4.3. The management and trajectory of the multinational company

4.3.1. The trajectory of the company multinational presents some particularities compared to when it only acts at the national level, aspects related to the organizational level are very important such as human resources policy, especially the management of expatriates, the management of cultural differences between different countries and the most appropriate structural models for your organizational design. Regarding human resources policy, three main challenges appear such as: the management of expatriates, the rotation of managers and the incentive system.

4.3.2. The rotation of managers through the different subsidiaries seeks a better global integration of the company through a better understanding of the problems and opportunities that arise in foreign countries, creating a network of managers with contacts all over the world that allows learning and mutual help on multiple occasions, experience abroad is an essential requirement for internal promotion.

4.3.3. Expatriates are those managers or employees who carry out their work in the country of destination, coming from another country, often the origin of the company. The main problems linked to expatriates come from the financing of prolonged stays, the difficulties of adapting to the destination country, the demotivation caused in local managers by their higher salary costs or the difficulties that often arise when it comes to return to the country of origin. However, expatriates tend to be used to a greater extent when politicized personnel are not available in the destination country and when there are high cultural differences or when the transfer of knowledge between the parent company and the subsidiary or control of the subsidiary is necessary to achieve greater global coordination

4.3.4. The incentive and performance evaluation systems also seek the global integration of the company and to do so they must achieve a difficult balance in two aspects between the countries where they operate, considering the difficulty of competitive performance in all markets and between positions of similar status and the responsibility within the company regardless of the country where they are.

4.3.5. The management of cultural difference refers to the understanding of the cultural traits of the destination countries as a key to the success of companies' actions in these countries. This requires the development of an international corporate culture that integrates such traits and helps overcome cultural differences. Culture or cultural intelligence is especially relevant when global or transnational strategies are implemented since it allows greater integration for the transfer of resources and knowledge in global learning between countries.

There are some aspects that can help companies to integrate culturally, such as maintaining a certain balance between the economic and financial interests of the parent company and subsidiaries and assuming some degree of commitment to local employment.

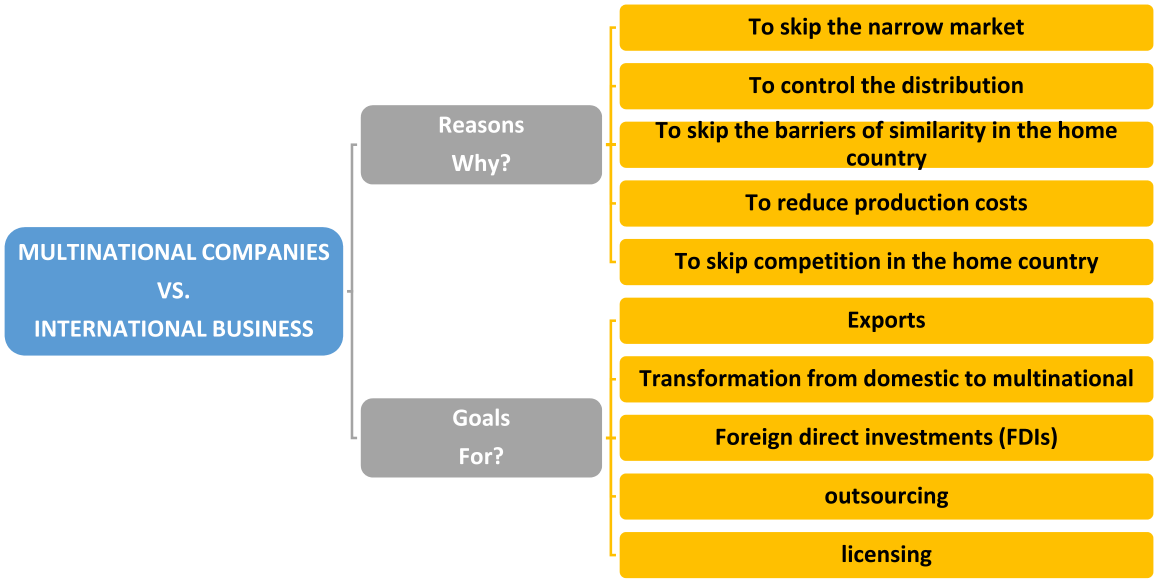
4.4. The characteristics of multinational companies

- **A control exercised by the parent company over the subsidiaries:** By following this way the company may decides how to operate in them and who the managers are and in addition to this it returns the profit obtained from the subsidiaries.
- **Investments in research, development and innovation:** Multinational companies are targets for investment in research, development and innovation in various fields, industries or markets because they contribute to the increase in production in several countries.
- **They grow by absorbing competition:** Given that multinational companies have many financial resources, they can grow by absorbing competition, as has been the case for some.
- **The possibility of a large size of multinational companies:** The large size of multinationals that have many workers, many equipment, buildings and many financial resources.
- **Best located in their sectors:** Multinational companies are usually the best located in their sectors because they are strong companies that, thanks to economies of scale, are able to reduce costs and therefore sell at lower prices. A typical example would be IKEA.
- **Strong negotiating ability:** There are companies that have this ability to sell their products at low prices in a large quantity but there are also companies that negotiate with the products or third parties to reach a good opportunity by selling their quality products to slightly high prices but in a quantity very appropriate to the markets using the intermediaries of digitalization and marketing to reach customers.
- **Easy access to financial resources:** Multinational companies can issue private debt bonds and sell them to investment funds, private clients or banks, in addition to this they can request money from many banks. Multinational companies can make capital increases and issue new shares that they can sell to the public in various countries.
- **More labor conflict and less flexibility:** Multinational companies need many investments and in addition to this they incur large costs because they have large structures such as offices, factories, subsidiaries with many employees, which makes it difficult for them to negotiate layoffs, for example in times of crisis or risks. Therefore they can incur losses very quickly if workers leave jobs or in cases of conflicts of interest or geopolitics. So, your sales or production may go down but your things remain the same.
- **The ability to diversify in products and sectors:** When the companies go multinational they may help diversify in products and sectors abroad through licensing, exports, foreign direct investments or outsourcing.
- **The skills and qualification levels of the workers:** The high level of qualification that the workers may have is very important for this type of company. Multinationals need very diverse profiles, which is why they want to reach different markets internationally to diversify their productions and services using the diversified capabilities and qualifications of foreign workers.
- **The importance of transportation and raw materials:**Multinational companies always have to negotiate transportation in cases of export or import of raw materials, for example, which is why it is very necessary to open subsidiaries where it is very easy to find raw materials, negotiated export contracts with neighboring regions or countries where multinational companies are located.

4.5. Main reasons and goals for multinational companies' business

According to this research there are various reasons for business internationalization through multinational companies since it is an important strategy for international business opportunities and values. Companies choose to multinationals to skip the narrow market in the domestic or home country and by extending their business abroad they may be able to control the distribution between the areas of their subsidiaries and even between them and the neighboring areas. When companies go multinationals they skip somehow the barriers of similarity in the home country and through this strategy they may reduce the production costs. Furthermore, one of the main reasons for the multinational strategy is skipping competition in the home country and financial difficulties. (See figure no. 2).

Figure no. 2. Main reasons and goals for multinational companies' business



Source: Author's design and research, 2023

However, going multinational needs to be based on some goals and some of them could be Exports between its subsidiaries and even for other countries, the transformation from domestic to multinational and this way the company may reposition itself and extend its reputation abroad. Moreover, multinational companies are famous as well with the possibility foreign direct investments (FDIs) and other business internationalization processes such as outsourcing with its three types and licensing for business values. (See figure no.2).

5. Conclusions

To sum up, Internationalization has been so far a relevant step for companies and businesses to leave the difficulties of domestic narrow markets and similarities, the example and business models such as outsourcing, licensing, exports or FDIs are operations of multinational companies and they can be a successful business operations in case of successful contracts and plan between the multinational companies and the countries of destination.

Internationalization allows companies to achieve at least a competitive advantage to increase their presence in the international market, therefore it is important that they are well designed and since based on this the company will be able to enter new markets to increase value. or profit, the number of your customers and your sales. Through internationalization, the company can introduce products or services to other countries that do not yet have them or do not have them. A multinational company is a company that operates in several countries where it may have factories, offices or points of sale and normally there is a country where it begins operations and we can call that company a parent company and the rest of the countries where the multinational has been established and extended over time will be called subsidiaries. Multinational companies have got various characteristics and implications for business values and no matter their size small, medium or large they need to focus on the aspects of sustainability and digital opportunities to reach the clients' satisfaction and be close to them.

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