

Business Internationalization through Foreign Direct Investment (FDI) for a Business Leadership Position: The Case of Multinational Companies (MNCs) in Globalization

Anis Benabed

*Bucharest University of Economic Studies,
Doctoral School of Economics and International Business, Romania*
anis_anisse@yahoo.fr

Abstract

This paper analyzes, describes and presents business internationalization through foreign direct investment (FDI) for a business leadership position by focusing on the case of multinational companies (MNCs) in globalization. The analysis and results demonstrated that through business internationalization the multinational company may generate from the process of internationalization with FDI an access to new resources and knowledge for promotion, a high visibility and brand recognition, an enhanced possible operational efficiency and a high capacity for innovation and development with the increase in sales and high income. In conclusion, multinational companies, should focus well on their ownership and study well the locations they would like to choose for their business operations abroad by focusing as well on their internationalization abilities for a possible foreign direct investment (FDI), possible risks may appear within the internationalization process of MNCs both FDI and both MNCs and FDI may face challenges.

Key words: Business internationalization, foreign direct investment (FDI), multinational companies (MNCs), business leadership position, globalization, trends

J.E.L. classification: F20, F21, F23, F60

1. Introduction

Globalization that is the current state of the world has interconnected markets and economies for decades and it has gone through different phases. The process of internationalization came and appeared in globalization as one of its instruments from the business perspectives. During different tough circumstances in the domestic markets, companies try to seek ways to leave the domestic market tight and competition by moving its business and operations abroad. Expanding business abroad has to go various steps that need to rely first on the compatibility between the domestic company that becomes multinational, transnational, global or international by operating abroad and the new foreign locations that could be challenging from time to time. Foreign direct investments (FDIs) are resources that enter a country through investments that foreign companies make in assets in foreign markets or foreign economies. Foreign direct investment can be long-lasting and exercise a management position. This full paper focuses on analyzing and applying the strategy of multinational companies with entry mode of foreign direct investments using the OLI model or as known the Dunning paradigm (1979). This full paper is a continuous research and analysis to previous ones and this time it addresses as well the key steps for business internationalization for through FDIs. 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. (Benabed, 2023).

Foreign direct investment (FDI) is widely the most considered and used index of globalization and it is an important dimension of international economic integration (Dreher, 2006). Furthermore, attracting FDI is often an explicit policy goal due to its potential to boost economic growth and

simply enhance productivity through cross-border technology, skills' transfer and business practice (Borensztein et al., 1998).

The aim of this paper is to study, analyzes, describes and presents business internationalization through foreign direct investment (FDI) for a business leadership position by focusing on the case of multinational companies (MNCs) in globalization.

2. A brief literature review

2.1. Background of Globalization and foreign direct investment (FDI)

Globalization is the force that brings economies together around the world by integrating them together. (Velde, 2005). It also enhances the economic development of economies (Iqbal et al., 2012).

Chen states that there are two main types of foreign direct investments (FDIs) and they are called Greenfield and brownfield FDIs. Both type have got a different impact on host economies (Chen et al., 2010). Indeed, Greenfield FDIs are foreign direct investments that come up with and provide new business facilities and activities in host countries (Chen et al., 2010). Whereas, Brownfield FDIs are the multinational company merge with other firms in the host countries. Both types of FDIs are important for boosting the economy of the host countries. Greenfield FDIs help raise and boost the capital stock, job creation, employment and outputs but the brownfield FDIs help enhancing and raising productivity (Chen et al., 2010).

2.2. Business Internationalization, Foreign direct investments and multinational companies

Paul and Wooster (2008) stated that internationalization can be conceptually about a set of foreign investments that may lead to outcomes, such as the discovery of knowledge and new products (Grossman and Helpman, 1989), an increase in turnover or profit (Paul and Wooster) and a rise in the efficiency of lower production costs in the example of Bharath, Dittmar, and Sivadasan (2014).

Napaporn and Chaiporn (2023) argued and stated that internationalization should be positively linked with firm performance. A higher level of business internationalization or a company's internationalization should enhance its performance due to larger turnover bases and economies of scale. Many firms, particularly, those in labor-intensive industries with relatively low level or capacity of product differentiation have move their production facilities to other economies with lower labor costs. Some companies may try to guarantee the fact that their knowledge base is better enough than their competitors; thus, they might take advantage from entering an international market by primarily enhancing their knowledge base. Therefore, a high level or degree of internationalization has to enhance firm performance by boosting and focusing on probability and competitive advantages that are related to better products, services and offers (Napaporn and Chaiporn, 2023). The dregree of firms' internationalization may turn out to be fully better when the engagement of firms outside the field of organized business activities is typically taken over and considered. (Tokman, 1978). Multinational companies may have the possibility to introduce products or services to foreign markets and other countries that do not have them (Benabed, 2023).

2.3. Globalization, Foreign direct investment (FDI) and Gross domestic product (GDP)

Lejko and Bojnec (2011) state that Globalization is commonly thought as an economic globalization that is mainly about a high level of internationalization of the world economy at several levels of areas and economies. (Lejko and Bojnec, 2011).The level of internationalization of economies is most expressed suitably as the level of their economic globalization. (Lejko and Bojnec, 2011). The intensity globalization may be measured by various indicators, such as foreign direct investment (FDI) flows, the economic activity of multinational firms and the internationalization of technology, capital movements and international trade flows (OECD, 2010; Lejko and Bojnec, 2011).

As foreign direct investment (FDI) is considered as a key strategy of national development strategies for developing countries, it is possible to have a positive link with economic growth. Indeed some recent studies show support to the positive contribution of foreign direct FDI inflows on economic growth (Ghosh and Wang, 2009; Lejko and Bojnec, 2011).

Stiglitz et al (2010) stated that economies need indicators that measure progress towards achieving their economic, social, and environmental goals. Gross domestic product (GDP) as a standard economic indicator is useful to measure just one limited aspect of the marketed economic activity, this indicator has been mistakenly used to measure welfare. (Stiglitz et al., 2010).

GDP had never been assigned to measure social or economic welfare. However, nowadays it is the most commonly used indicator of an economy's overall performance (McCulla and Smith, 2007).

2.4. Business internationalization and market competition

The available resources are very important for business internationalization and offers for markets that on efficient ways of the internationalization process (Yuki, 2008). Market competition is important for capitalist economies (Blaug, 2001) since leaders of companies and organization focus on it when they operate (Yuki, 2008) confirms that it is important for organizations to rely on the leadership advantage (Yuki, 2008).

First, leaders have to center on identifying risks and threats for a positive for firm performance (Thomas et al., 1993). Second, leaders may stimulate subordinates to put up organizational and firm performance as it is mentioned in various research about leadership styles and actions such as transformational leadership. (Yuki, 2008).

3. Methodology and research questions

In the research method there was a focus first on a related literature review by focusing first on the body of knowledge then on identifying the key concepts mentioned in the literature that apply in this area of research and then by identifying the links between those concepts. After that the research focused on analyzing as well the Dunning paradigm (1979) or as it is known as the OLI model (See figure no.1) that is a business international strategy for multinational companies, the reached results from the analysis and study were illustrated in some frameworks (See figures no.2 and 3), during the analysis there was a focus as well on analyzing some statistics about the global FDI outflows and inflows (See figures no.4 and 5) by even trying to find if they have a correlation with the Global GDP in the period (2012-2022), within the analysis part there was a focus as well on the amount of greenfield investments in the period globally from 2021 to 2022. (See figure no.6). The collected data were analyzed and interpreted according to their relevance to this full paper and research (Benabed, 2024a), the set research questions helped move well with related literature. (Benabed, 2024a).

RQ1: Is the multinational strategy an important move towards internationalization by focusing on FDI?

RQ2: Are foreign direct investments important for the business internationalization process?

RQ3: Is business Internationalization relevant for Companies' leadership position in the context of Globalization?

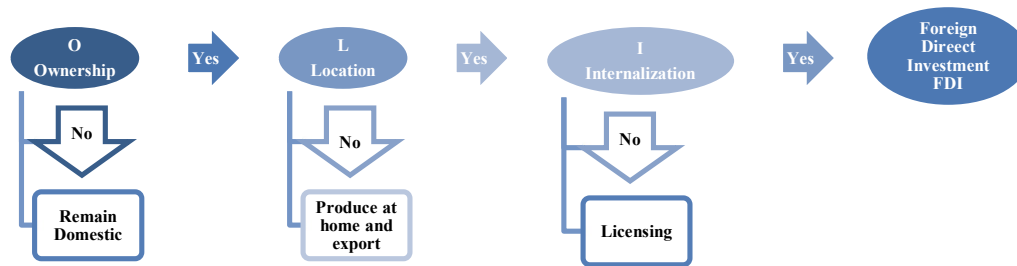
4. Analysis and results

4.1. Reaching Business Internationalization through Foreign Direct Investment (FDI)

Dunning's eclectic paradigm for multinational companies (MNC's) explains the possibility of emergence of multinational companies following the three types of competitive advantage that multinational company needs such as ownership, location and internalization (Dunning, 1988).

By looking at the framework in figure 1 that is a considered a business model, if the company decides to transform from domestic to multinational, it may consider going for foreign direct investments. By considering the three main factors of the OLI paradigm.

Figure no.1. Business Internationalization through Foreign Direct Investment (FDI)



Source: Author’s design and contribution, 2023, Adapted from the Eclectic Paradigm by Dunning (1988)

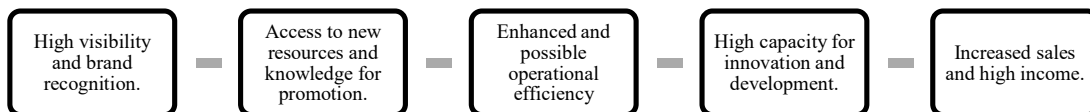
In order for a company to be multinational and to make a foreign direct investment, it must have an ownership advantage, if the company has this ownership advantage, such as an original brand with which it can compete in the foreign market, innovative technology or a strong management capacity, it can choose or look for compatible locations for its operations or services to the foreign market or the country of destination. If the company has both the ownership and location advantages, it can focus on its internalization, that is, the advantage and integration of transactions within the company that bases on 4 decision criteria, which are risk, control, feedback and resources. The company that has these advantages must find it more advantageous to exploit and use them for itself than to sell or rent them to other companies located in other countries and that means it must be more profitable to internationalize these advantages through its value chain or through the execution of new activities. If the company has all these advantages, it can become a multinational company and thus make foreign direct investment. (See figure no.1).

So the company may become multinational and go for a foreign direct investment by opening subsidiaries abroad in other economies or compatible foreign markets if it has got the three key factors of ownership, location and internalization, if the company does not own these advantages, it remains domestic by exporting abroad or by giving license to other companies to that for it, the multinational company may reach values and market leadership through a foreign direct investment (FDI) that could be relevant as a business internationalization process. (See figure no.1).

4.2. Companies and businesses for benefits through business internationalization with FDI

As multinational companies try to seek options to generate more benefits for its leadership and existence it has to focus on the main benefits that may get from going for business internationalization. (Figure no. 2). The main benefits that a multinational company may generate from the process of internationalization with FDIs are an access to new resources and knowledge for promotion, a high visibility and brand recognition, an enhanced possible operational efficiency and a high capacity for innovation and development and increased sales and high income. (Figure no. 2).

Figure no. 2. The main possible benefits for companies through business internationalization



Source: Author’s design and research, 2024

4.3. Key steps for companies for business internationalization and market leadership

Multinational companies that would like to internationalize through FDI should determine its expansion objectives first that elaborate a plan with a global vision and local focus on the process of business internationalization, it is necessary for the company to define after that the marketing strategies that may push it ahead towards market leadership (See figure no.3).

Figure no. 3. Key steps towards business internationalization for companies and businesses

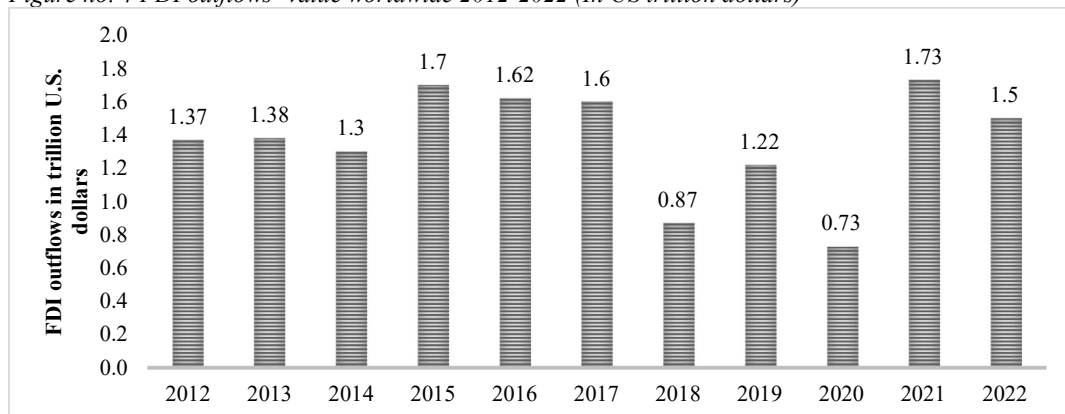


Source: Author’s design and research, 2024

Identifying the suitable opportunities is a one of the key that the process of business internationalization to stabilize especially by trying to find frequently new markets in different suitable locations in order to boost its global position in the frames of globalization and define its leadership strategy. (See figure no.3).

Figure no.4 illustrates the value of foreign direct investments outflows globally from 2012 to 2022 in US trillion dollars that is the value of outward direct investment made by the residents of the reporting economy to the external economies. (See figure no.4).

Figure no. 4 FDI outflows’ value worldwide 2012-2022 (In US trillion dollars)

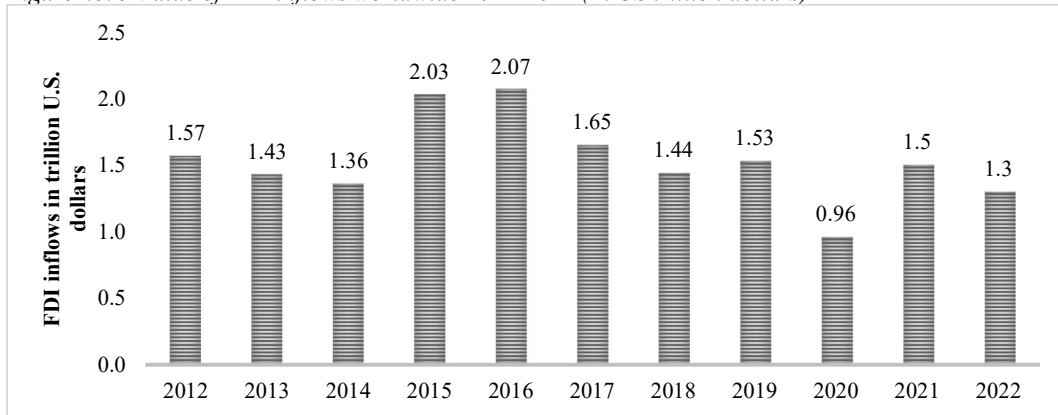


Source: Author’s contribution, Statista data 2022

The illustrated data in figure no.4 show that there was a fluctuation in FDIs from 2012 to 2022 where the lowest value of FDI outflows globally was in 2020 during the pandemic caused by Covid-19 with the value 0.73 US trillion dollars compared to 2019 the global value of FDIs reached 1.22 US trillion dollars, the highest value worldwide was in 2021 with 1.73 trillion US dollars. Here we may recognize that the FDI outflows are exposed to various challenges such as global health crisis, financial crisis, geopolitical conflicts and the aspects of negotiations with stakeholders. (See figure no.4 and table no.1).

Figure no.5 illustrates the values of FDI inflows globally from 2012 to 2022 in US trillion dollars, in the chosen period we observe a fluctuation in values from a year to another, the highest value of FDI inflows was in 2016, in 2020 there was a decrease as well in the value to 0.96 Trillion US dollars due to the sudden pandemic caused by Covid-19 but it increased again in 2021 to 1.5 trillion US dollars. (See figure no.5 and table no.1).

Figure no. 5 Value of FDI inflows worldwide 2012-2022 (In US trillion dollars)

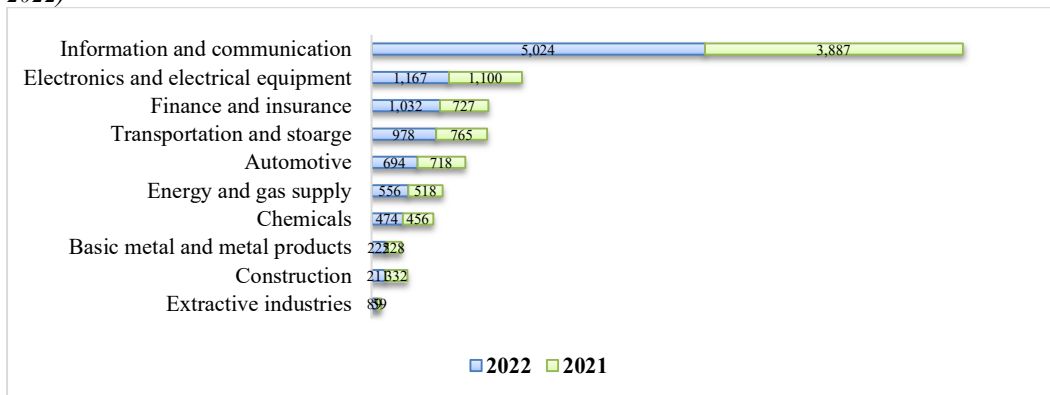


Source: Author’s contribution, Statista data 2022

The fluctuation and the ups and downs in the value of the FDI inflows are due to the fact they are always exposed to various challenges such as global health crisis, financial crisis, geopolitical conflicts and the aspects of negotiations with stakeholders. (See figure no.5 and table no.1).

Figure no.6 illustrates the number of the Greenfield foreign direct investment (FDI) projects globally from 2021 to 2022 by industry, we notice that there was an increase in the number in all the indicated industries in 2022 compared to 2021.

Figure no. 6 Number of Greenfield foreign direct investment (FDI) projects globally, by industry (2021-2022)



Source: Author’s contribution, Statista data 2022

The highest number was registered in the category of information and communication (5024) in 2022 compared to 2021 where it was only 3887. (See figure no.6). The second highest category was the category of Electronics and electrical equipment with 1167 amounted Greenfield FDI projects in 2022 compared to 2021 where it reached only 1100 but the difference between both years for the same category was not big. The third category was Finance and insurance with 978 in 2022 followed by automotive with 964 in 2022 but with a higher number in 2021 with approximately 718. However, the lowest number was registered in the category of construction with 213 greenfield FDIs in 2022 and 28 in extractive industries in 2022. From all the categories we understand that Greenfield FDIs are important for many categories or industries but it was preferred for some categories due to their priority and importance such as information and communication that was in the lead in 2021-2022 according to the available data and statistics. (See figure no.6). As foreign direct investment (FDI) is considered as a key strategy of national development strategies for developing countries, it is possible to have a positive link with economic growth. Indeed some recent studies show support to the positive contribution of foreign direct FDI inflows on economic growth (Lejko and Bojnec, 2011).

Table no. 1 Values of global FDI inflows and outflows in trillion US dollars together with the amount of Global GDP at current prices in billion US dollars from 2012 to 2022

Years	Global FDI outflows in trillion US dollars	Global FDI inflows in Trillion US dollars	GDP at current prices in billion US dollars
2012	1,37	1,57	73305,67
2013	1,38	1,43	77503,5
2014	1,3	1,36	79596,18
2015	1,7	2,03	75128,93
2016	1,62	2,07	76395,06
2017	1,6	1,65	81256
2018	0,87	1,44	86246,43
2019	1,22	1,53	87494,08
2020	0,73	0,96	85257,58
2021	1,73	1,5	96989,56
2022	1,5	1,3	100662,95

Source: Author's contribution, statista data 2022, IMF data 2022

By applying a correlation analysis between the Global FDI outflows in Trillion US dollars and the global GDP at current prices in billion US dollars (2012-2022) we observe that the correlation is negative and there is no correlation between both Global FDI outflows and the global GDP at the prices of 2012-2022 in billion US dollars, the thing that confirms that FDI outflows globally did not contribute well the the globa GDP and GDPs of the economies of their destination in the period (2012-2022) since the correnation reached only -0,0293569. (See table no.2).

Table no.2 the correclation indiator between Global FDI inflows in Trillion US dollarsand the global GDP at current proces in billion US dollars (2012-2022)

	Global FDI outflows	GDP at current prices in billion US dollars
Global FDI outflows	1	
Global GDP at current prices in billion US dollars	-0,0293569	1

Source: Author's calculation 2024 based on statista data 2022 and IMF data 2022

By applying a correlation analysis between the Global FDI inflows in Trillion US dollars and the global GDP at current proces in billion US dollars (2012-2022) we observe that the correlation is negative and there is no correlation between both Global FDI inflows and the global GDP at the current prices in billion US dollars, the thing that confirms that FDI inflows globally did not contribute well the the globa GDP and GDPs of the economies of their destination in the period (2012-2022) since the correnation reached only -0,46969342. (See table no.3).

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	Global FDI inflows	GDP at current prices in billion US dollars
Global FDI outflows	1	
GDP at current prices in billion US dollars	-0,46969342	1

Source: Author's calculation 2024 based on statista data 2022 and IMF data 2022

5. Conclusions

As business internationalization has been one of the main possibilities to leave local or domestic market tightness, it has been an important step for companies to reach better profit through foreign direct investments in the countries of destination for competitive advantage and business values.

Furthermore, there is no correlation between the values of global FDI outflows or inflows with the Global GDP in the period 2012-2022 and that means they did not contribute enough to the global GDP in the chosen period.

Multinational companies that would like to internationalize through FDI should determine its expansion objectives first that elaborate a plan with a global vision and local focus on the process of business internationalization, it is necessary for the company to define after that the marketing strategies that may push it ahead towards market leadership (See figure no.3). Identifying the suitable opportunities is a one of the keys that the process of business internationalization to stabilize especially by trying to find frequently new markets in different suitable locations in order to boost its global position in the frames of globalization and define its leadership strategy. Multinational companies that would like to internationalize through FDI should determine its expansion objectives first that elaborate a plan with a global vision and local focus on the process of business internationalization, it is necessary for the company to define after that the marketing strategies that may push it ahead towards market leadership. Identifying the suitable opportunities is a one of the key that the process of business internationalization to stabilize especially by trying to find frequently new markets in different suitable locations in order to boost its global position in the frames of globalization and define its leadership strategy.

A successful business internationalization is based on the multinational companies' ownership with products, services or FDI that cannot be imitated, the location for FDI plays a big role in boosting the company towards more profit and leadership position in foreign markets and the ability of internationalization is a big booster for the process of internationalization through FDI as well. Multinational companies that try to expand their business operations and services to new markets to raise money and drive profitability have to focus and pay attention more and more to increasing productivity by respecting the environment of the host economies and focus on more efficiency by minimizing even costs for better sales and results with the internationalization process of FDI.

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