TRANSNATIONAL COMPANIES: DEFINITION, SPECIFICATION AND ADVANTAGES

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ABSTRACT
The transnational companies are considered to be the most complex and modern form among the companies, however it has certain factors that makes it more obliged comparing to other ones as well. Before we overview the structure and factors of transnational companies we should review all forms of companies and determine its general definitions.

Keywords*: Transnational, company, management, differences, advantages*

**ULUSLARÖTESİ ŞİRKETLER:
TANIM, ÖZELLİK VE AVANTAJLARI**

ÖZ
Uluslarötesi şirketler, şirketler arasında en çetin ve en modern biçim olarak kabul edilmekle birlikte, diğer faktörlere kıyasta daha zorunlu kılan belirli faktörleri de vardır. Uluslarötesi şirketlerin yapısını ve etkenlerini gözden geçirmeden önce, her şirket biçimini gözden geçirmeli ve genel tanımlarını belirlemeliyiz.

Anahtar Kelimeler: *Uluslarötesi, şirket, yönetim, farklılıklar, avantajlar*

Introduction

As we know there are various types of companies that are well known around the world, however, not all of them are correctly represented by the companies and their core differences are mostly forgotten or confused. Below we may 4 types of companies that make business in various countries:

International companies:
Such companies import and export either raw materials, spare parts of ready products from different countries but they do not have any direct business realisation in each of those countries. In other words, they do not invest in any

other country that the one they are located and their business with other countries limits with buying and selling certain products / materials.

Multinational companies:
Such companies indeed have investment in various other countries, but they do not sell same product or service in each country without any further adaptation. Multination companies are concerned about local market demand and interests, so they adapt the products as per the needs and wishes of each market.

Global companies:
Global companies practice investing in many countries at the same time. However, they do not consider direct interests of local market and prefer to develop the image of certain brand and make it wanted in each and every country. Such companies are usually worldwide know famous brand companies that are accepted in every market they wish to attend.

Transnational companies:
Transnational companies are considered to be a more difficultly structured organizations with a more complex inner system. Rather than directly opening certain branches in one country by themselves they invest into the companies that open those branches/entities. At the same time the transnational company gives the ruling power to each of the branches and demands for the reporting only, that is normally done to one central or regional office.

Below we may see the way structure of the mentioned companies look:

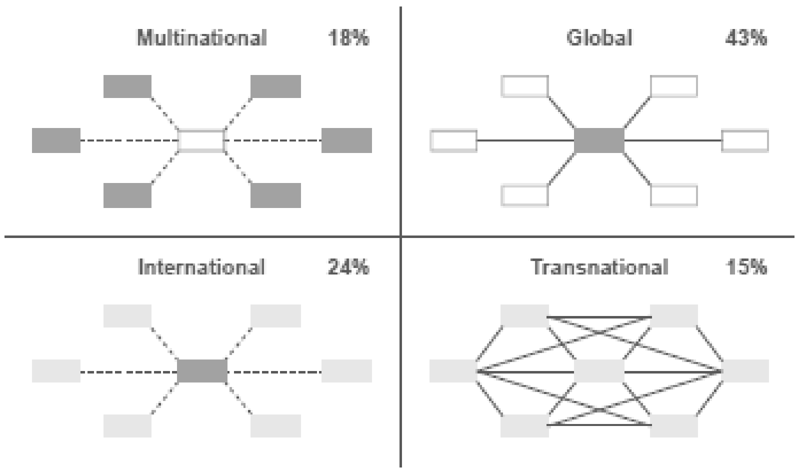

Figure 1.

As we may see in above table the most popular are Global companies, that take 43% of the market, while the International ones have 24% of the market, Multinational ones 18% and the lest one belongs to Transnational companies that are only 15% of the whole world market.[1]

As it was described above we may also see it in the table how international companies have a single centre but do not have any business realising branches and concerned about import and export of certain materials and / or products which is clearly reflected on the scheme. Meanwhile on the same scheme we may see how multinational companies have each operating branch that realises the business as per the market requests, that is reflected as a stable entities in each operating country.

Global companies opposite to multinational ones does not adopt the products and services under the local need and thus we may see in the scheme, where the self-centred company that integrates it products / services as a brand to other markets wherever they decide to open their branch, as it can clearly be overviewed in above table.[2]

Finally, the transnational companies have a totally different revolutionary structure. As we may see in table 1 the transnational companies do not have any strictly settled up a centre that makes decisions for all the companies at once. In reality, there is a centred that makes certain decisions regarding corporate governance, standards, procedures and reporting processes, however none of the offices and/or branches does not have any decision making power in such matters as marketing, product/ service development, production process and etc. In other words, each branch makes its own decision what to sell, how and in what order, however, they do need to apply common standards and procedure accepted by the transnational company as a single standard implementation for whole company. Respectively, transnational companies chose one entity for whole company or several as per regional centres, where all information is reported for proceedings, statistical overview and various types of analysis that would detect the overall company issues, help to deal with them and show the progress and development of the transnational company as a final result. As it was described below, transnational companies prefer to invest into the companies that open certain branches around the world rather that doing it themselves and the main aspect why such companies do really get combined as a part of one transnational company is the wish to share the knowledge, experience,

[1] *Best, N., Nutting, J., Stiff, P. and Astranti (2014). C02 Financial Accounting Fundamentals: Control Accounts, CIMA. Pearson Education, London, UK. (p.100-112)*

[2] *Ietto – Gillies, G. (2005). Transnational Corporations and International Production: Concepts, Theories and Effects. Edward Elgar Publishing Ltd, New York, USA. (p.91-130)*

technological integration and other benefits that is vitally needed by each of them.

Unfortunately, most of times the companies are not aware about the differences of the company types and names of many companies does not reflect their business in the way it was described as per above.

In this paper we would overview what the transnational companies really are, how they are structured, what is their specification and advantages to both public, company itself and its employees.

Definition and specification of transnational companies

As any of the mentioned company types any of transnational companies have a certain reasons why it actually becomes a transnational company, what is it differences, specification and why it is preferable for the certain company management.[3]

Before deciding whether a transnational company should open a branch in one country or not it usually applies a deep analysis of local market for better understating of its needs and demands. Such analysis may be realised by the company directly or it may hire some assistance company for provision of such analysis. As transnational companies prefer to invest into some organisation that would be dealing with new branch opening in some country, sometimes the transnational company may request such analysis to be provided by that particular invested company, however, it is less likely recommended due to security issues that the company may face. In such cases the invested company may provide with untrue information with its own interest to gain the investment. Due to this the transnational companies normally hire an independent assistance company that makes pure analytical report for them.

Meanwhile there are various reasons that may make the transnational company want to invest into the company to open some new branch in particular country.

The reasons why a transnational company decided to open a new branch divide onto below categories:

1. New opportunities that can be gained in new market
2. Lower cost opportunities
3. Better legal requirements[4]

[3] *Barlett, A.C. and Beamish P.W. (2014). Transnational Management. McGraw Hill Education, Ontario, Canada. (p.275-311, 541-591, 625-642)*

[4] *Litneva, N.A. and Malyavkina, L.I. (2006). Accounting: Principles and theory: 2nd edition. Sherq-Qerb Publications, Baku, Azerbaijan. (p.10-27)*

Lack of above mentioned reasons at the same time are constantly considered as the barriers for transnational companies to be able to evolve. The benefits that any member of transnational company gains from the professional business realisation perspective are below ones:

1. High performance and professionality level
2. Experience and knowledge share
3. High level of technological integration

Meanwhile the above mentioned barriers, such as high cost, big load of legal procedures and lack of opportunities make a transnational company deal with such issues and they do not have enough time and resources left to develop their main benefits.

In order to be able to have a fully functionating transnational company, the management constantly searches for new opportunities that would help them to orient on their main targets.

Below we may overview top transnational companies with their sales figures results as of 2011:

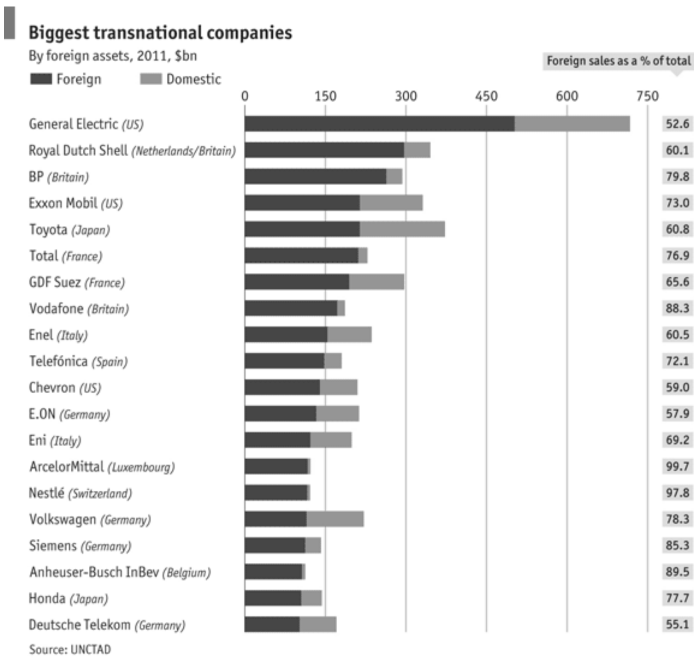

Table 1

Transitional companies are considered to be the modern type of business making due to the opportunities that such kind of companies use that would be impossible without the new technological inventions that make a company feel less distanced from any other country wherever it is actually located. At same time such company type has a higher level of reliability by the public and interested parties.[5] Below we may see the main reasons why the public and interested parties consider transnational companies as more reliable:

1. Business scale: respectively transnational companies are the ones that have big revenues and if the company is called transnational it means that it already has business realisation is several countries at least. Such attitude of business realisation make the public feel secure when they deal with such entitles.
2. Higher experience: as it was mentioned before the transnational companies are normally concerned about higher targets that normal companies do, which means that have solved certain simpler issues and have bigger experience in the sphere of activity. Such matter also makes transnational companies more reliable as they seem to be more professional than any other companies.
3. Success insurance: as mentioned above the transnational companies prefer to invest in certain companies that would realise new branch/entity for them, instead of doing by themselves, Such kind of action decreases the risk that the transnational company could have experiences. Such attitude gives additional insurance to the public and interested parties that the company would not live through some crisis or bankruptcy.

Respectively there are various issues why one company may choose to become a transnational one, not multinational or any other.

Each company may have its own reasons why it decides to become a transnational one and below we may see some main of them:

1. When the company is not concerned about some specific brand of products/ services and the only true target of it is to be able to build a strong business structure that would bring benefit to them, it chooses to become a transnational company. This is simply explained with the simplicity of concept that a transnational company applies, which states that the company simply wants a reliable company to invest in, and ensure that their business would be realised in proper way by complying all necessary standards and bringing certain revenue.

[5] *Barlett, A.C. and Beamish P.W., Transnational Management.*

2. When the company does not wish to deal with local legislation, its specification and requirements in direct way it decides to become a transnational company. It considers direct communication with tax departments as well, which is usually considered one of the most difficult procedures for the companies, especially if they newly enter some market. Transitional companies prefer to rather invest into the organisations that would open the branch for them. It does not consider that the branch would be totally dealing by itself, but it means that the opening and certain strategical solutions would be realised by them with corresponding compliance of all standards and procedures of the transnational company.
3. When the company decides to be a transnational one, it decreases it own risks that would occur if the company make a business realisation by itself. This kind of risk my arise when the company actually fails to realise business in certain country, while the other local invested company would bare less loss.[6]
4. When the company want to realise its businesses in soonest future, it decides to become a transnational one as in such cases the business would be built with a better market analysis and preparation than if a foreign company had to implement those duties.

By the structure among all of the company types the multinational ones have a closest form the transnational ones, however there is certain difference which is up to the management what is more important and vital to them. Below we may see the main differences between these 2 company types:

[6] *Barlett, A.C. and Beamish P.W., Transnational Management.*

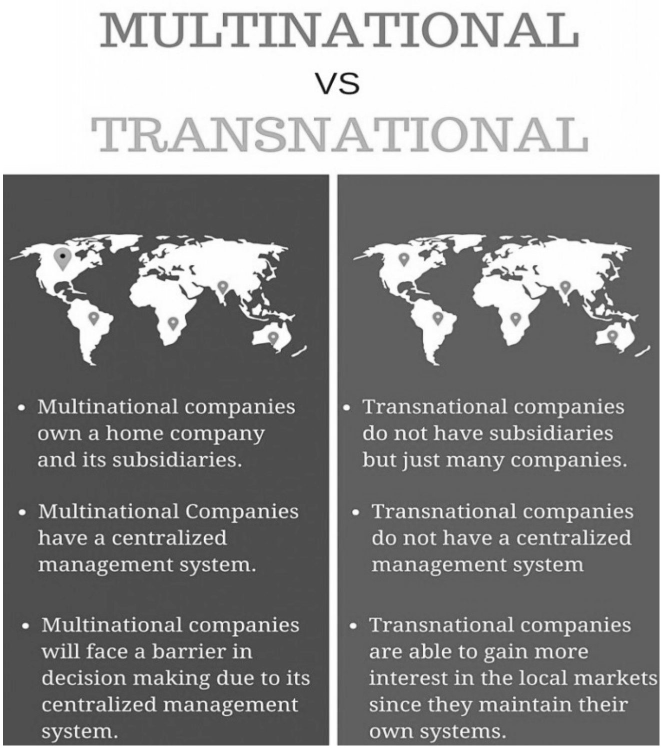

Table 2

As may see in the table the main difference between the 2 types of the companies is the decision making matter which is very important for both of the types. However, in certain cases that management does not wish to share with other parties.

In other words if the company does not feel confident to share certain information with other companies where it can invest, it decides to open new branches in different countries by its own self and does not depend on any party's performance, activities and business making professionality level.[7]

While the transnational companies bare certain risk to share some significant information with the parties that they invest in. Respectively, such kind of attitude may bare certain risk and arise the security issues. However, there are certain way that transnational companies may protect their information, methods, clients and other valuable assets from the untruthful attitude of wrong parties.

[7] *Barlett, A.C. and Beamish P.W., Transnational Management.*

Below we may see the methods that transnational companies may and indeed use in order to be able to manage it business along with investing into the independent parties:[8]

1. Strong data protection activities, such as potentising all inventions.
2. Proper contract conductions showing all aspects and terms that would secure the company rights.

The transnational companies usually manage to protect their companies from the corresponding risks by building a well-structured strong managerial and accounting structure within the company and using above mentioned methods.

Managerial and accounting / finance structure

Below we may see the managerial structure of a transnational organisation:

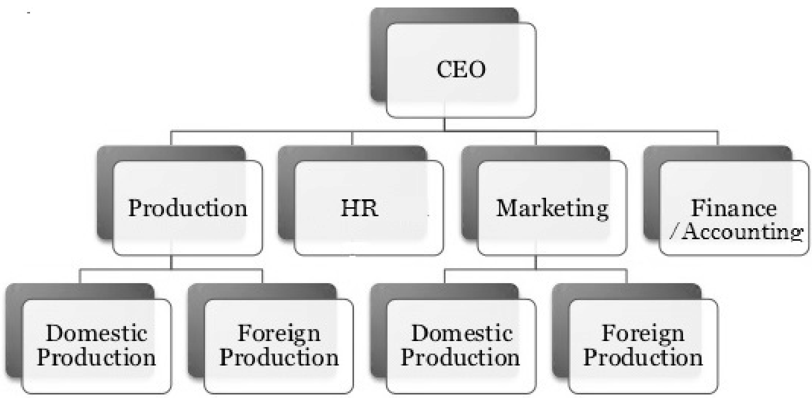

Figure 2

As we may see, CEO stands on the top of the company with following divisions and despite the fact that each and every branch has its own managemental structure it still has to consider the other entities as well along with head quarter where all reports and information is collected. It does not mean that the branches do not have the decision making right, they fully have such right, however, they should report and consulate certain matters with the headquarters which is clearly mentioned in the corporate governance.[9] The Accounting / Financial structure of

[8] *Lundan, S. (2015). Transnational Corporations and Transnational Governance: The Cost of Crossing borders in the Global Economy. Edward Elgar Publishing Ltd, Michigan, USA (p.105 – 290)*

[9] *Warren, C.S., Reeve, J.M. and Duchac, J. (2013). Financial & Managerial Accounting: 10th Edition. Pearson Education, London, UK. (p.100-112)*

transnational companies is not shown in table 4 and therefore we may see it in below structure:[10]

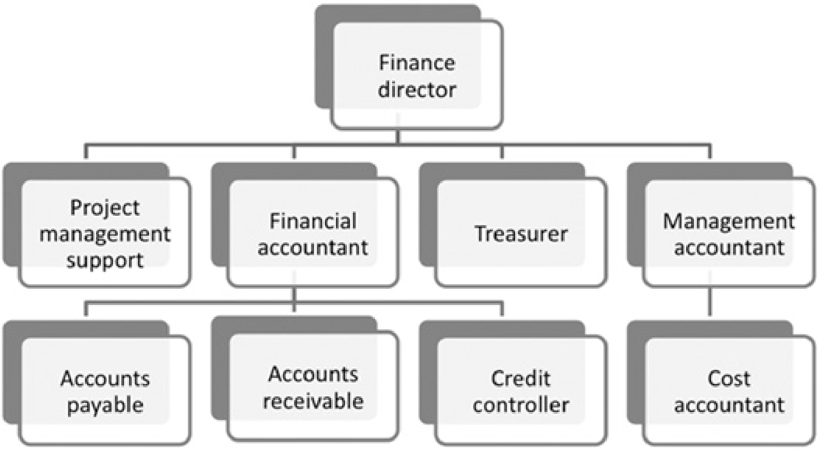

Figure 3

In transnational companies the financial director of each entity is obligated to report directly to the Chief Financial Officer of the company. Respectively the financial director is responsible for presentation of all necessary information to the top management that would be reviewed and valued by them. There are number of reasons why the hierarchy of the transnational companies gas such a detailed accounting / finance department which is explained by the big scope of valuable information that would be managed in details.[11]

Below we may see the detailed reasons why it is very important for the transnational company to have a strictly duty divided accounting / finance team:[12]

1. Distance issue: when an organisation has various branches in different countries around the world, it creates certain management issues for the company, that makes it more important to have a specific employee responsible for each duty. Besides that the communication issues may also arise, in case such management is not realised which makes the transnational companies typically modern type of management.

[10] *Skousen C.J. and Walther L.M. (2012). Introduction to Managerial Accounting: 1st edition. The eBook company, Los Angeles, USA. (p. 30-48)*

[11] *Barlett, A.C. and Beamish P.W., Transnational Management.*

[12] *Skousen C.J. and Walther L.M. (2013). Managerial and Cost Accounting: 1st edition. The eBook company, Los Angeles, USA. (p. 25-40)*

2. Data management issue: Chief Financial Officer is supposed to get proper information for further analysis, reporting to upper management, public and all interested parties. Respectively as the transnational companies are normally the companies that are realising big scope of business and have a significant revenue, they also have big scope information that need a strong team for its management which respectively explains the detailed structure of accounting team and strong division of the duties among its employees.
3. Cultural factor: each country in the world has its own quite unique culture and such factiopr should be properly dealt, and should not negatively influence the performance of the company and its financial/accounting team. In order to avoid such kind of issues the transnational company may not have a vivid duty division and should have a detailed structured team that is aware of its responsibilities and the corresponding parties carrying those responsibilities..
4. Confidentiality issues: however, this issue is normally considered regarding external matters, the confidentiality is an extremely important issue inside the company as well. Certain employees may bare some confidential data that should not be expanded inside the company as well. Respectively, if there is only one person who has access to the large number of confidential information, the lack of such information has lower risk. It does not consider total isolation from such risk, but it limits it and in case such failure actually happens, it is easier to find the weak points of the company, than if such information was kept by several employees at the same time.

Disadvantages of transnational companies

Below we may see main disadvantages of transnational companies to the management, public and its employees:

1. Failure risk – there is always a risk that the company would suffer a failure, however normally the transnational companies have a higher level of such risk due to the other parties that they normally invest for opening new entities and branches.
2. Environmental issues and labour exploration issues – this issue is considered as a main issue of transnational companies’ impact of the countries where they operate, however, we should remember that such kind of attitude may not be applicable if the company is properly complying all standards and does not practice any activities outside of ethics and truthful management.
3. Capital blockage – as transnational companies operate in various countries, there is always a risk that some political activity may happen in any of those countries that would end up with the blockage of the funds kept in those countries, which is both unavoidable and critical issue for the companies[13]

[13] Barlett, A.C. and Beamish P.W., Transnational Management.

Advantages of transnational companies

1. Favourable taxation: normally the companies that become transnational ones start their business from the well-developed countries where the taxation respectively has high rates in all spheres comparing to which the other branches of transnational companies experience lower rate of tax withdrawing, Respectively, such advantage is very valuable for the company and may not be undervalued.
2. Better cultural understanding: as the transnational companies normally invest into other companies that open the branches for them, those invested parties are usually local companies or other kind of companies that already have certain experience in the market where transnational company tries to enter. In such case the transnational company would not have to deal with the local environment directly but at the same time would have an advisor (invested company) that would help it better and faster understand how the local market works and what are its specifications.
3. Less fund loss in case of failure: despite the fact that the transnational companies have a higher risk of business failure comparing to other kinds of companies, at the same time in case the business failure happens, the transnational company would have the least risk to lose its funds which is a contradictory factor that belongs to transnational company management. As it was earlies described, the investment into the other party would help the transnational company experience less fund loss.
4. Faster business realisation – as transnational organisations in fact prefer investing into the other parties for new branch and entity opening, they face with the companies that have already lived through similar experience in the same market and know the system of entity opening, that makes their task faster and easier which is actually one of the main advantages for transnational company that wants to open a new branch in a newly discovered for them market.

Conclusion

Each company in the world has its own reasons that make them decide what kind of company they want to become. Respectively, the transnational kind of companies is not applicable for all companies and has certain specification which makes it a unique solution for business making.

As it was described above the company that decides to become a transnational one has certain responsibilities, such as high technological development, high level of analytical decision-making which may be assisted to them by assistance companies, but still internal one is also strongly needed in order to keep up the security reasons and other unique responsibilities that are quite difficult in realisation and implementation.

Despite the difficulties and the duties that are required for the management of transnational companies, such companies bring number of advantages both to the management, employees and the public overall.

Below we may see overall description of the benefits for each of mentioned groups:

Company and its top management:
The transnational companies may achieve bigger targets once they have an accurate and detailed structure which is properly managed. Once it is realised, the company would be experiencing faster and wider development which is considered as a top priority of the company. Besides that the transnational companies would live through such advantage as lower fund loss in case the company fails to open some new entity with is considered as a significant privilege from the company management perspective.

Employees:
To be a part of a transitional company is considered to be a very prestigious matter as being a part of big family with big and strong capabilities. The employees normally have a higher salaries when they work from transnational company rather than if they worked for any other one.

Public:
The existence of a transnational company in a market makes it a stronger platform for exchange and makes certain positive input in its economy. Respectively, the markets usually positively accept the entrance of transnational companies into their platform, which concerns its further development.

As per above reviews we may state that the transnationalcompanies despite of the difficulties considered in its management have worthy reasons that make them more advantageous for the employees and the public which results with the positive input into the economy as a final result..

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