

# The Phenomenon of Sustainable Development and Financial and Economic Stabilization of Transnational Corporations\*

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**ANNOTATION.** In this paper, the author proves the urgency and importance of studying transnational corporations when global markets are shaped by a new quality of competition and regulation. The author frames the concept of an effective business model of development of transnational corporations that makes it possible to optimize the constantly growing cash flows in their dynamically evolutive structures. She confirms the hypothesis of the twenty-first century changes in the motivational reasons of transnational accumulation of capital with the consequences geared to modern priorities of development (economic democratization, socialization, and ecologization). She shows that when, apart from the traditional approach (predominantly marketing-based), the financial approach is applied, which takes into account the cyclical nature of the process of capital turnover, the architecture of the business models in their key components are substantially adjusted: the internal potential of self-development must include a system of resources provision, efficient capital management and forms of business organization, while allowance for the changes in the external environment requires constant upgrading of the business model with modifications, scenarios which illustrate graphically the methods proposed by the author from the prognostic view.

**KEYWORDS.** Transnational corporations (TNCs), phenomenon of TNC prosperity, stability of development, resistance against crisis shocks, accumulation of capital, business model of development, architecture of business model, internal potential of development, external environment, systems approach, architectural compositions of TNC models, viability of a business model.

## Introduction

Transnationalization, as an objectively caused process with its multilevel and controversial manifestations, is markedly adjusting national and international strategies of development. Therefore, it is among the most attractive subjects of research, its typical attributes being a rather polarized approach to the phenomenon of the sustainable development as well as financial and economic stabilization of TNCs.

The processes of transnationalization over a lengthy period of time have been in the focus of attention of many economists and research institutions and have been examined in the works of such foreign scholars as R. Vernon, J. Danning, D. Daniels, Ch. Gila, E. Graham, I. Ivanov, M. Casson,

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R. Cameron, S. Kindleberger, J. Keynes, O. Kireyev, R. Couz, E. Kolde, Y. Lensky, R. Loustarinen, A. Movsesian, M. Posner, M. Porter, H. Perlmutter, L. Radei, F. Ruth, L. Yelsh, H. Fisher, R. Fakhfudinov, S. Heimer, S. Hirsch, P. Khvoynik, and Shumpeter. Among the fundamental works devoted to this subject by Ukrainian scholars are those of O. Havryliuk, B. Hubsy, P. Dudchenko, L. Kistersky, D. Lukianenko, Z. Lutsyshyn, Y. Makohon, V. Novytsky, Y. Panchenko, A. Poruchnyk, A. Filipenko, V. Filipov, O. Shnyrkov and S. Yakubovsky.

The study of transnational corporations has become topical today with the emergence of global markets that have a new quality of competition and regulation. These developments are reflected adequately enough in the works of foreign and Ukrainian scientists. Most frequently the interest of their research centers not only on the efficiency of TNC activity with traditional goals and organizational-economic forms, but also on their successful operation within a much broader than strictly corporate range of motivations and interests. For all that, a systems approach to the formation of corresponding business models of TNC development and their purpose-minded modifications has not become prevalent.

Economists have different viewpoints regarding the reasons and components of the TNCs' success, in particular, because of market imperfections (S. Haimer, Ch. Kindlerberger, E. Chamberlin), pursuit of the leader (K. Akamatsu, Nikkerbokker), internal structure and transactional expenditures (P. Buckley, M. Kasson), competitive advantages in the form of different groups of factors (J. Danning, Narull, M. Porter, A. Ragman), key competences (H. Hamel, C. Prahalad), and international nature of activity (L. Welsh, R. Luostarinen, R. Robinson, Le Se Un, Y. Hesin, V. Shinayev, Y. Yudanov, M. Mironov, and P. Khvoynik).

But at the same time the ability of TNCs to attract capital can have a fundamentally different explanation.

*The purpose of this article* is to scientifically substantiate the possibility of stable accumulation of capital by, on the one hand, the ability of TNCs to respond flexibly to the changes in the external environment that allows using the positive processes and avoid negative influences and ruinous crises or minimize them, and, on the other hand, the presence of a potential of self-development that acts as a motive force of economic upsurge, shapes the power of TNCs, and secures them a certain position internationally. Both factors are interrelated and exert a certain influence on each other, which makes it possible to combine them into a single model characterizing the successful activity of modern TNCs.

The insufficiency of comprehensive research of the factors, determinants and architectural compositions of TNC models in the globalized environment occasioned the choice of the subject, the logic of its research and the presentation of its results.

**Resistance to economic shocks.** Stability of development is among the priority goals of the majority of corporations. Moreover, special importance is lent to «active stability,» i.e. the ability not simply to weather trials, but to avoid a sharp drop in turnover, retain one's share of the market, a certain level of profitability, and the like. Small wonder that the companies that managed to achieve success in this respect permanently emphasize and advertise their achievements.

The hardships experienced during crises can serve as distinctive models of the problems companies are faced with during irregular processes. Recession in demand for products, excessive growth rates of production costs over growth rates of prices for products — all this is in equal measure a reality at times of classical crises of overproduction and lingering structural problems. It is believed that these problems have many things in common, and the study of the first one of them is the key to understanding the strategy international companies use to stabilize their status.<sup>1</sup>

A company's ability to systematically retain the least vulnerable position during a crisis is an important sign of its resistance to economic shocks, even in their broadest and not only cyclical spectra. Modern industrial giants rarely topple during crises. Lately, they have been saved, as a rule, by their hidden financial reserves, interference of powerful banking groups or the assistance of governments. However, this does not mean the TNCs' dampened interest in securing their stable development, since the threats are not limited to those listed above.

The ability of «big business» enterprises to cope with crises with relative ease is revealed most brilliantly at the sectoral level. We have in mind not so much the successes of separate corporations as the special status of the entire top echelons of monopolistic capital. Since practically all the largest national companies of the developed countries are TNCs, speaking about the high resistance of «big business» to crisis shocks means simultaneously confirming that transnational corporations are endowed with the same properties. Moreover, there is no doubt whatsoever that in a number of cases it is precisely the flexible organization of international activity that is saving the top brass of transnational capital from serious crisis shocks. In his paper *Secrets of the Financial Steadiness of International Monopolies*, A. Yudanov cites examples of how the world's second largest chemical monopoly Bayer of Germany coped with economic setbacks and crises.

When viewed against the background of the general development of Germany's chemical industry, Bayer does not differ essentially from the dynamics of its turnover inside the country. Occasionally, the company weathered crises and setbacks much better (1980), sometimes about the same (1975,

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<sup>1</sup> Пашин С. Т. Функционирование транснациональных компаний организационно-экономическое обеспечение. — М.: Экономика, 2002. — С. 23. (*Funktsionirovaniye transnatsionalnykh kompaniy organizatsionno-ekonomicheskoye obespecheniye* (S.Pashin. The Functioning of Transnational Companies: Organizational-Economic Security. Ekonomika Publishers, Moscow, 2002, p.23)).

1978), but very frequently and much worse than the entire sector (1967, 1971, 1981, 1982, 1986). The company was saved by sales abroad that were considerably less affected during the periods of a poor market situation and regularly «bailed out» the overall indicators of Bayer, the latter almost always appearing to be much better off than the dynamics of the sector's turnover.<sup>2</sup>

In general, in the history of any company with an internationalized nature of its activity there are always moments when its business abroad develops more successfully than at home. But lest the significance of these examples remains within the bounds of an artificial sampling of facts and gains the force of evidence instead, it is important to substantiate two conclusions.

First, it is necessary to clarify the extent to which international activity is significant by its dimensions and diverse by forms of organization, and the noticeable impact it has on the standing of leading companies in the course of an economic cycle.

Second, it is worthwhile proving that the relatively easy way the largest companies cope with crises is caused by the transnational nature of their activity, specifically their activity beyond the borders of their countries.

Competition conditions on the world market are such that once a company enters the market, it is compelled to constantly increase the dimensions of its internationalization. Putting it otherwise, the company, as a rule, can become «partially transnational» and invariably remain in such a position. At the same time the process of internationalization is rather dynamic, and therefore in a «mature» TNC abroad a substantial share of its total products is sold. This is evident, in particular, in the data of a uniquely illustrative poll of 523 international companies conducted by a research group under the eminent British economist J.Danning. It showed that a medium-size TNC in the early 1990s effected 45.7 % of its sales abroad<sup>3</sup>. In the early twenty-first century, this indicator exceeded 80 %.

We would like to emphasize that the most widespread viewpoint in the economics literature links the mechanisms of credit and financial stabilization with the special role of that part of a TNC turnover which is determined by intra-company trade between the parent company and its subsidiaries abroad, i.e. it is a question of organization and efficient management of internal capital flows. This can be attested by the stability phenomenon of IBM during the crisis in the 1980s, when the output of personal computers in the United States was faced with the problem of stagnation.

Only those enterprises that were part of the largest electronic company IBM proved to feel relatively secure under these conditions. In the first half of the 1980s the company expended much effort to reduce the lag in the out-

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<sup>2</sup> Пашин С. Т. Функционирование транснациональных компаний организационно-экономическое обеспечение. — М.: Экономика, 2002. — 348 с. (*Funktsionirovaniye transnatsionalnykh kompaniy organizatsionno-ekonomicheskoye obespecheniye* (S.Pashin. The Functioning of Transnational Companies: Organizational-Economic Security. Ekonomika Publishers, Moscow, 2002, pp.348]).  
<sup>3</sup> www.unctad.org/wir

put of computers and achieved tremendous success; its share on the personal computer market went up twofold and exceeded 40 %, while IBM PCs — a stunning market success that turned into a symbol of American high-tech achievements — consist of 75 % of components from Japan, South Korea and Singapore<sup>4</sup>. Moreover, one-fourth of all the concern's exports originate from IBM's own enterprises abroad.

The analysis of this example confirms that the «rescue» measures employed by the company do not always aim at boosting production at the subsidiary enterprises (or parental enterprise) that land in crisis trouble. Faced with a surplus of production capacities, such TNC units are mostly denied the right to expand the export of their products within the corporation, and even, to the contrary, are compelled to reduce exports right up to the emergence of reverse commodity flows — import of products of a subsidiary that already has problems with selling its own products. Besides, rather obvious are also the motives of rejecting attempts at «evening out the production cycle» at the level of individual subsidiaries. The positive side of this strategy is of a clearly productive nature related to the more uniform utilization of capacities within the frameworks of corporations and, therefore, a more efficient use of equipment. However, this is opposed by fundamental flaws of a credit and financial nature. For example, given full utilization of capacities, the production costs at the Mobil factory in Wilhelmshafen proved to be much higher than at the company's enterprises in Saudi Arabia. Liquidating the factory to gain profit in the long run was of greater advantage to the TNC than preserving it. For many years the British subsidiaries of General Motors and Ford were unable to increase utilization of their capacities because of low quality of products, tense social relations, and lower batch production. If the orders from other branches were to be transferred to these subsidiaries they would have undoubtedly benefited from such a move, but the TNC as a whole would have gained less profit. Also, the reverses in the struggle with Far Eastern competitors (particularly keen in the mid-1980s when the exchange rate of the US currency was artificially overrated) made the IBM's stake on imports commercially justified.

K. Tugendhat saw the principal purpose of TNC anti-crisis policy in that the group tries to retain a high level of production capacities utilization of all its members, as a result of which international orders are placed with those that need them, but not with those that may ensure the least prime cost in the first place. Putting it otherwise, the company's slogan is «sell at prices higher than prime cost,» while overstated prices can fluctuate from contract to contract<sup>5</sup>. He views the financial aspect as being secondary. The cited examples

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<sup>4</sup> Informationen ueber multinationale Konzerne. Wien, 1985, April 28, p.3 (Information about Multinational Concerns).

<sup>5</sup> Тьюгендхат К. Международные монополии / Пер. с англ. — М.: Прогресс, 1974. — 376 с. (Mezhdunarodnye monopolii. [K.Tugendhat. International Monopolies. Translated from English. Moscow, Progress Publishers, 1974 pp.376])

speak of another hierarchy of purposes. Even when an attempt is made to even out the production cycle, it happens only when it does not endanger the profitability of a TNC. The exports of subsidiaries experiencing a crisis are enlarged only when objective conditions exist for this purpose.

The analysis of the possibility to reduce the exports of a TNC or its stagnation (the latter meaning increasing export costs not more than by 2.0 %) made it possible to reveal several alternative approaches.

1. In periods of crises and recession, decline in exports is not observed or, at least, it is much less evident than in other phases of a cycle. This option occurs if Tugendhat's concept is true and the TNC parent companies that landed in a major problem ward it off by boosting exports (thereby neutralizing the decline in exports)<sup>6</sup>.

2. Decline in the stagnation of exports is about the same regardless of the phases of a cycle. Such a result (although to a lesser extent as compared with the previous variant) also speaks of the fact that during the hard years of trouble the parent company receives substantial support for account of intra-company exports. As sales on the national market decline, the dynamics of exports is the same as during other phases.

3. Exports decline during times of recession and crises more often than in other periods. This option proves that K.Tugendhat's concept is wrong. The dynamics of intra-company exports is not the basis of raising the TNC's resistance to cyclic shocks, because exports themselves are suffering from the crises.

Therefore the capability of intra-company exports playing the role of the main stabilizer of an TNC's standing at times of cyclic shocks raises serious doubts. Its dynamics lacks not only the features of «anti-cyclicity,» i.e. the capability of sharply rising in periods of crises, but demonstrates certain elements of being parallel with the development of internal sales. The hard years on the national markets are certainly unfavorable for exports. The reasons of such one-sided trends in exports and internal economic activity are well known. Foreign trade is extremely susceptible to the fluctuations in the market situation, and the changes in the volumes of exports mostly reflect the changes in a country's internal economic situation. At times of upsurge, the demand in goods (foreign included) rises and their import goes up. But at times of crises, it is the other way around when reduced demand results in a decline in imports. As S.Menshikov points out, the changes in a country's commodity imports, given other equal conditions, are directly related to the changes in the volumes of national industrial output<sup>7</sup>. In turn, exports depend on the market situation in the country for which they are intended.

<sup>6</sup> Ibid.

<sup>7</sup> *Меньшиков С. М. Инфляция и кризис регулирования экономики. — М.: Мысль, 1997. — С. 56. (Inflatsia i krizis regulirovaniya ekonomiki [S.Menshikov. Inflation and the Regulation Crisis of the Economy. Moscow, Mysl Publishers, 1997, p.56])*

However, the development of the economic cycles in the countries of the closest trade partners is very similar, evolving into the following chain dependences:

1. The dynamics of exports derives from the fluctuations of the market situation of those countries to which the exports are shipped;
2. The development of the market situation of the most important trade partners and on the internal market are distinguished for a high synchronism;
3. Therefore the dynamics of exports proves to be similar to the status of a cycle within a country.

In other words, the elements of parallelism in the fluctuations of exports and national sales of TNCs reflect the similarity of the development of a cycle in the countries that maintain the closest trade relations.

The similarity in the cyclic dynamics of internal production and exports serves, in turn, as an objective restriction for the use of the latter within the framework of a TNC's anti-crisis strategy.

It is believed that to mitigate the crisis shocks, a TNC uses most frequently the production facilities abroad<sup>8</sup>. In this case, it behaves like an international monopoly. Weathering a crisis means for it improving the corporation's indicators as a whole, regardless in what countries its subsidiaries managed to make this favorable progress. Decisive in this case is the resource and, above all, financial and credit centralism of the TNC and its operation as a dynamic single polysystem. For corporations that embarked on such a road higher output and profits do not necessarily have to be achieved during a production pickup in the country where they are based, while the prosperity of international companies may derive from the successes in other countries and does not guarantee high business activity in their national economy.

Diversification of production is viewed as one of the areas of raising the steadiness in the operation of TNCs. With the assistance of diversification TNCs materialize the effect of an equal level of economic activity in different countries, as well as the dissimilar degree of defeat in a crisis in different sectors. Such a strategy is clearly reflected in the activity of the Mannesmann metallurgical company. Using it as an example, S.Pashin argued that the diversification of production abroad makes easier to use the disparity in the economic situations in different countries in the interests of the anti-crisis strategy of international monopolies<sup>9</sup>. The penetration into a new sector (and, accordingly, the possibility to exploit the specifics of another market situation) by foreign subsidiaries is in some cases a much easier objective than

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<sup>8</sup> Мовсеян А. Г. Некоторые особенности экономики США на рубеже веков // США, Канада: экономика, политика, культура. — 2001. — № 4. — С. 64—75. (*Nekotoryie ossobennosti ekonomiki SShA na rubezhe vekov*. [A.Movesian. Some Specifics of the US Economy at the Turn of the Centuries. USA, Canada: Economics, Politics, Culture. 2001, No.4, pp.64-75])

<sup>9</sup> Пашин С. Т. Функционирование транснациональных компаний организационно-экономическое обеспечение. — М.: Экономика, 2002. — 348 с. (*Funktsionirovaniye transnatsionalnykh kompaniy organizatsionno-ekonomicheskoy obespecheniye* [S.Pashin. The Functioning of Transnational Companies: Organizational-Economic Security. Ekonomika Publishers, Moscow, 2002, pp. 348]).

anything similar within a country where a corresponding market might be monopolized by a powerful competitor. For instance, Thyssen, the metallurgical company, which had been trying to enter mechanical engineering for a long time, made an inroad into the manufacture of car parts not in its own national market where the world's undoubted leader Robert Bosch Co. held sway in this area, but in the US where it seized the Budd Company.

Additional profits and better standing during a crisis are predominantly of a financial origin. They appear because a corporation manipulates its capital as a single financial whole. The subsidiaries in the countries with unfavorable economic conditions are mostly engaged in their usual business. That is, advantages appear at the level of the entire TNC. But at a level of its separate units there is neither any evident trend in production stabilization or employment of investment.

Indeed, the described tactic of weathering crises for account of development of the subsidiaries beyond the recession zone has little to do with a TNC's production activity. This tactic does not allow for increasing output at the parent enterprises (as would have been the case when the stake would have been made on boosting exports). In fact, output at the subsidiaries is growing, but it is not of an intentional «anti-crisis» nature. The subsidiaries are used for increasing output in the favorable market situations of the countries where they operate. They would, perhaps, be operating in such a manner anyway even in the country where their corporation is headquartered and where no crisis persisted. The entire effect of stabilization is occasioned by the structure of the international company who financial relations unite the enterprises in the crisis zone and in other stable territories.

A literature review<sup>10</sup> makes it possible to argue that a TNC tries to achieve stability by credit and financial manipulations based on the existence of a world system of subsidiaries, i.e. as a diversified organizational structure.

This establishes the basis for a radical difference of status of one company within the system of an international corporation from a similar company that operates within the country and, possibly, manufactures similar products, but is of a purely national nature. While the national company, which is forced to reduce output during a crisis and at the same time suffers from the financial consequences of this process, the international company is saved from this finance-related problem when curtailing output. The latter compensates these problems on account of the network of subsidiaries. As a result, the companies that are component parts of a TNC become less responsible financially

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<sup>10</sup> Власть крупного капитала / Институт мировой экономики и международных отношений; Отв. ред. Е. С. Хесин, В. Н. Шенаев, Ю. И. Юданов. — М.: Мысль, 1987. (*Vlast krupnogo kapitala*. (The Power of Big Capital. Institute of World Economy and International Relations. Executive editors Y.Khesin, V.Shenayev, Y.Yudanov. Moscow. Mysl Publishers, 1987)); Hamilton G, Hill M, Knirsch P, Zaleski E. Red Transnationals or Red Herrings. — NY: UN, 1996. — pp. 518.; Пауин С. Т. Функционирование транснациональных компаний: организационно-экономическое обеспечение. — М.: Экономика, 2002. — 348 с. {S.Pashin. The Functioning of Transnational Companies: Organizational-Economic Security. Ekonomika Publishers, Moscow, 2002, pp. 348}.



for their actions, which, in turn, changes the nature of their investment activity, employment policy — in short, their entire behavior in the course of an economic cycle<sup>11</sup>.

As was pointed out, for instance, by T. Hailstones and J. Rothwell, it is benefit for a company in the short-term to effect unprofitable transactions until it can offset its variable expenses and a part of overhead costs. If it is capable of compensating its variable costs, it is much more economical to halt production in the short-term aspect ... this is the principle by which the managers of a company are guided not only during decision-making on the temporary closure of an enterprise, but also when decisions are made on the issue of continuing output of individual types of products that are unprofitable<sup>12</sup>.

A TNC has a still greater freedom of choice when it comes to halting output of unprofitable types of products without upsetting the completeness of their range or supply of accessories.

The large network of subsidiaries located in different countries enable a TNC to increase output where it can gain maximum benefit, and restrict it where it is unprofitable. The buffer role, which is compellingly performed by a purely national company to cover constant expenses, is absolutely not inherent in a TNC<sup>13</sup>.

By relying on a ramified organizational and structural network and credit-financial flows, which unite the subsidiaries in all the cases, a TNC ensures for itself an advantage over other companies<sup>14</sup>.

As clarified by analysis, the enormous dimensions of the TNCs' international activity impact greatly on their steadiness in the course of an economic cycle. The transnational nature of the largest companies ensures the mechanism of a relatively easy way of weathering crises. Judging from the findings of rating agencies, the profits of 500 companies covered by the rating in 2002 went down by 66 %, i.e. by US \$69.6 billion, while the total income decreased by 6 % to US \$6.95 trillion, and only the income of Wal-Mart Stores in 2002 went up by 12 % and in its estimated total amounted to more than US \$246 billion. General Motors, holding second place in the *Fortune* rating, had US \$60 billion less than Wal-Mart Stores, which is a brilliant example of how TNCs survive under unfavorable economic conditions<sup>15</sup>.

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<sup>11</sup> Пашин С. Т. Функционирование транснациональных компаний: организационно-экономическое обеспечение. — М.: Экономика, 2002. — 348 с. (S.Pashin. The Functioning of Transnational Companies: Organizational-Economic Security. Ekonomika Publishers, Moscow, 2002, pp. 348]).

<sup>12</sup> Hailstones T. J., Rothwell J. C. Introduction to Managerial Economics. London:Englwood, 1979, p.231.

<sup>13</sup> Пашин С. Т. Функционирование транснациональных компаний: организационно-экономическое обеспечение. — М.: Экономика, 2002. — 348 с. (S.Pashin. The Functioning of Transnational Companies: Organizational-Economic Security. Ekonomika Publishers, Moscow, 2002, pp. 348]).

<sup>14</sup> Руденко Л. В. Управління потоками капіталів у сучасній бізнес-моделей функціонування ТНК. — К.: Кондор, 2004. — С. 246. (*Upravlinnia potokamy kapitaliv u suchasnyy biznes-modelei funkcionuvannia TNK* (L.Rudenko. Management of Flows of Capital in the Current Operation of TNC Based on Business Models. Kyiv. Kondor Publishers, 2004, p.246])

<sup>15</sup> <http://www.forbes.com/forbes>

**Business models underlying the activity of TNCs.** The phenomenon of the TNCs' prosperity can be explained by their ability to attract and retain capital, i.e. manage international flows of capital for their benefits.

Capital moves in a direction where it can reap the largest benefit<sup>16</sup> and, since it is a precursor of prosperity, TNCs join the fray for its attraction. To qualify for a «company of the 21st century,» quite a few companies are now pondering over the «strategy for the 21st century» and the processes that take place in the world at the beginning of the new century, as well as over the changes in international trade and in the world of business.

Successful and aggressive companies achieve growth in annual profits and investment primarily because of the best «business models» designed, as Adrian Slyvotsky<sup>17</sup> believes, on the basis of a strategic understanding of the main priorities of clients. Such an approach was initiated by Joseph Schumpeter who saw business as an innovational process when possibilities were sought to satisfy human needs on the basis of a «new combination» of the components of economic management. According to the definition of Slyvotsky, a business model is a system that provides services to consumers and thereby ensures profit.

The current economic interpretation of the essence of the business model proves that, if annual income provides the estimation of the size of the business model, the ratio of market value to annual income becomes an indicator of its profitability and efficiency. This ratio is an indicator of what a business model is worth compared with its competitors as well as the number of investors.

The ability to measure the relative capacity of a business model makes it possible to understand the speed and direction of capital migration. These measurements are also extremely important for understanding how the economic capacity of a model changes.

To understand the direction and size of capital migration, it is necessary to conduct some empirical research. Since market value is the measure of a business model's ability to generate and retain capital, it embraces the volume of a company's total capital (amount of shares put into circulation plus long-term debts). Like any other financial indicators, market value has its own flaws: it is inconsistent, susceptible to fluctuations on the stock market, as well as quarterly changes in the amount of income on shares and recommendations of analysts. But if we were to summarize all the results of polls of investors and investment professionals, it will prove that market value is the best indicator of the economic capacity

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<sup>16</sup> Сорос Дж. Кризис мирового капитализма. Открытое общество в опасности. Пер. с англ. — М.: ИНФРА-М, 1999. — С. XVI. (George Soros. The Crisis of World Capitalism. Open Society in Danger. Translated from English. Moscow. INFRA-M Publishers, 1999, p.XVI).

<sup>17</sup> Сливоцький А. Міграція капіталу: Як у замислах на кілька кроків випередити своїх конкурентів: Пер. с англ. — К.: Пульсари, 2001. — 296 с. (*Mihratsia kapitalu: Yak u zamyslakh na kilka krokiv vyperedyty svoikh konkurentiv*. [A.Slyvotsky. Migration of Capital: How to Conceptually Outdistance Several Steps Ahead One's Competitors. Translated from English. Kyiv, Pulsary Publishers of Kyiv University, 2001, pp.296])

of a business model and the potential of its future profits. The market value of large companies with different business models embodies the overall capacity of these individual models to work successfully on the market.

As confirmed by statistics, the largest market capitalization growth is demonstrated by such corporations as HSBC Holdings (181.65%), American Intl. Group (149.86%), and CitiGroup (138.84) (see Fig. 1).

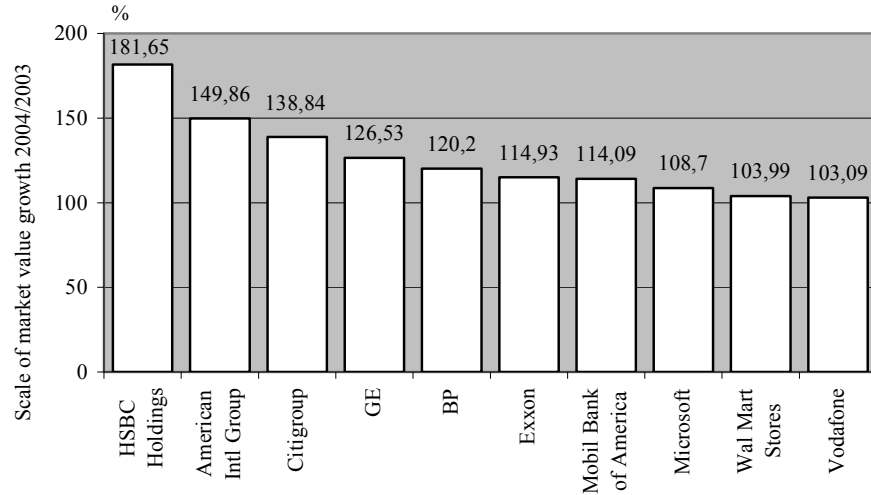


Fig. 1. World leaders by market value growth rates in 2004

Judging from statistics, overall sales volumes of the world's 500 largest companies increased approximately threefold, while the world GDP went up only half as much again respectively. Yet it is not always the question of the huge sizes of transnational companies — quite to the contrary; frequently these TNCs are comparatively small as regards the dimensions of their transactions, but they are extremely flexible, exceptionally efficient in terms of production and profit (especially in the area of innovative resources, service of cash flows, and the like). According to the US weekly *Forbes*<sup>18</sup>, the leader among the TNCs by the market value indicator in 2002 was Microsoft, which held a rather high fifth place also by annual income, although by sales volume it held only the 43rd place, while by the sum of assets 52nd place.

At the same time one of the most powerful companies by sales volumes and sum of assets General Motors (2nd and 10th place respectively) was by its annual income and market capitalization far behind Microsoft (50th and 61st rating positions respectively).

**Ratings of largest US TNCs by annual income<sup>19</sup>**

<sup>18</sup> <http://www.forbes.com/forbes>

<sup>19</sup> <http://www.forbes.com/forbes>.

Rating place	Company	Annual income (US \$ billion)	Rating place	Company	Annual income (US \$ billion)
1	Wal-Mart Stores	246,525.0	31	Procter & Gamble	40,238.0
2	General Motors	186,763.0	34	Johnson & Johnson	36,298.0
3	Exxon Mobil	182,466.0	37	Pfizer	35,281.0
4	Ford Motors	163,630.0	40	Morgan Stanley	32,415.0
5	General Electric	131,698.0	47	Microsoft	28,365.0
6	Citigroup	100,789.0	48	Merrill Lynch	28,253.0
7	Chevron Texaco	92,043.0	49	United Technologies	28,212.0
8	Intl. Business Machines	83,132.0	58	Intel	26,764.0
9	American Intl. Group	67,722.8	59	Motorola	26,679.0
10	Verizon Communications	67,625.0	61	Walt Disney	25,329.0
11	Altria Group	62,182.0	62	PepsiCo	25,112.0
12	ConocoPhillips	58,394.0	69	American Express	23,807.0
13	Home Depot	58,247.0	82	Alcoa	20,618.0
14	Hewlett-Packard	56,588.0	92	Coca-Cola	19,564.0
15	Boeing	54,069.0	109	Lehman Brothers Hldgs.	16,781.0
16	Fannie Mae	52,901.1	116	Xerox	15,849.0
17	Merck	51,790.3	124	McDonald's	15,405.0
18	Kroger	51,759.5	150	Eastman Kodak	12,841.0
19	Cardinal Health	51,135.7	440	Bethlehem Steel	3,572.4

High market capitalization (US \$40 billion) was demonstrated several years ago by Sycamore Networks, a relatively small manufacturer of optic fiber equipment that had much more modest indicators of annual sales volumes (US \$60 million) and a labor force of only 200 persons. The market capitalization of the car giant General Motors came to US \$66 billion. But General Motors with all its enterprises, thousands of workers, patents, and an annual income of about US \$7 billion was rated by investors only 65 % higher than

Sycamore Networks. Obviously, the dimensions of activity do not always determine the market value of a company.

So as an indicator of a business model's efficiency we should apply a coefficient that is a ratio of market value to annual income. Since this indicator is a combination of circulating assets (annual income) and anticipated earnings (market value), it may be a signal of an increase or decline in the viability of a business model. When the ratio of market value to income is high, investors expect substantial profit growth from the given business model. The companies with a high ratio of market value to income (usually over 2.0) are in a phase of capital inflow. In a phase of stability, this indicator is within the range from 0.8 to 2.0, and this speaks that the future possibilities of profit growth are paling. In a phase of outflow, when the capability of a business model to yield profit declines, the ratio drops under 0.8<sup>20</sup>. At all times this ratio was considered an indicator of a business models' power (see Fig.2).

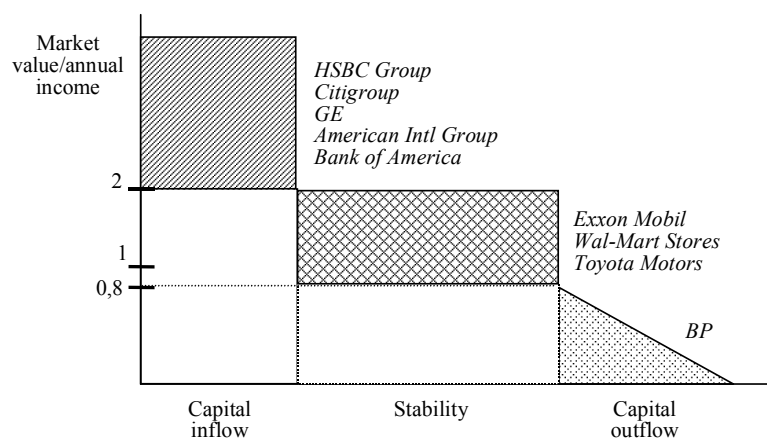


Fig. 2. Viability of business models of the world's largest TNCs in 2004

The phenomenon of sustainable development as well as the financial and economic stabilization of modern TNCs can be explained by their ability to attract and retain capital, which is promoted by the following two factors:

- the ability to flexibly respond to the changes in the external environment that makes it possible to use the positive processes and avoid or minimize the negative impacts and ruinous crisis developments;
- the availability of an internal potential of self-development that is a motive force of economic upturns, shapes the might of a TNC, and secures it a certain standing internationally.

<sup>20</sup> Сливоцький А. Міграція капіталу: Як у замислах на кілька кроків випередити своїх конкурентів: Пер. с англ. — К.: Пульсари, 2001. — 296 с. (*Migratsia kapitalu: Yak u zamyslakh na kilka krokiv vuperedyty svoikh konkurentiv.* [A.Slyvotsky. Migration of Capital: How to Conceptually Outdistance Several Steps Ahead One's Competitors. Translated from English. Kyiv, Pulsary Publishers of Kyiv University, 2001, pp.296]).

Both factors are interrelated and exert a certain influence on each other, making it possible to combine them into a single model that characterizes the successful activity of modern TNCs.

**Systems approach to the formation of business models of TNC development.** The study of literature and the activity of a number of successful TNCs have made it possible to construct a definition of a business model of TNC development as a set of interrelated elements and processes that function internationally, have mechanisms of self-preservation and self-regulation (self-development) ensuring, on the one hand, a TNC's capability of flexibly responding to the changes in the external environment for using positive processes and avoiding negative impacts, the ruinous crisis developments or minimizing them and, on the other hand, the availability of internal potential of self-development that is a motive force of economic upturns, shapes the might of a TNC, and secures it a certain standing internationally.

Business models of the dynamic polysystems type serve as the functional foundations for the development of TNCs under globalization. The principles of a polysystems approach make it possible to conduct targeted economic studies of TNC development, because a specific problem is examined simultaneously from different angles and solved with the assistance of the tools and methods of different scientific disciplines. The object and subject of studies under such an approach are rather complex economic phenomena and processes that are organically related to the issue of the formation and development of TNC management on the principles of the dynamism of a business model.

The appearance and development of business models is historically linked with the changes in the conditions of economic management. What was most important for a company in reaping profits in the 1960s-1970s was its dimensions of activity and share of the market, when intellectual activity was brief and large-scale manufacturers with a large market share prospered (IBM, DEC, US Steel); in the 1980s the dimensions of activity and market share were gradually replaced by prompt strategic decision-making (signing of new contracts, entry into new markets, new forms of transacting business, development of new products, etc.), which, accordingly, compelled to reduce the periods of activity intensity.

In the early 1990s, there was yet another change in the conditions of economic management that resulted in changes in the priorities of factors promoting the creation of the corporations' profits. At that time the dimensions of activity, market share and even speed ceased to be factors of prosperity and moved into the background to make way to the ruling role of business models. In this manner the nature of competition changed.

As the globalization processes were gaining in depth, the conditions of economic management continued to change. To retain capital it is important to own a market share, use the dimension, speed of strategic and day-to-day decision-making, and have a certain business model. But much more impor-

tant is to design on the basis of these factors a dynamic polysystems business model capable of ensuring not only high profits, but also stability, which in the early twenty-first century has become the predominant motive of activity of the overwhelming majority of corporations.

Therefore, a systems approach and system-oriented behavior should become a decisive factor of a company's successful development. The distinguishing features of systems-oriented companies are their constant use of systems management methodology for resolving the most diverse problems, when the purpose-minded changes made in a certain system are viewed as a special, inimitable system of measures that are limited in time and effected in combination with limited resources.

The distinguishing characteristic of a single complex system is its ability to self-preservation or homeostatis, as it is called in the theory of complex systems. For a system to sustain its viability and exist in an environment over a long time, it has to have a mechanism of counteraction to external influences. That is, every external influence that tries to upset the functioning of a single system has to arouse in it a counteracting force that tries to return it to the initial status. Probably, when a certain group of influences of the environment is not challenged by actions that are opposite or compensatory to the environment, the system is bound to disintegrate. Undoubtedly, there is always such a level of external influences that can overcome any protective barriers and ruin the system. Hypothetically, a third world war may produce such consequences. Therefore, it is advisable to speak about the possibility of a corresponding compensatory response of the system to a relatively minor influence of the environment.

The diverse processes (elements) of a model are closely interrelated. It means that changes in one element will by all means tell on the functioning of other elements and evoke a corresponding response of the system. The systems processes follow not a disconnected course, but create a single complex pervaded by cause-and-effect relations.

Self-regulation means that any influence of the environment on one of the elements or process immediately tells on the entire system. The system, i.e. the TNC business model, generates compensatory reactions that adequately respond to external influences and revert the processes to a state of equilibrium. In cybernetics such a mechanism was coined as feedback. This type of self-regulation is inherent in all single complex systems. If the compensatory forces are not enough, the processes pass to another phase linked with another situation of equilibrium. For example, under the pressure of governments and trade unions of the host countries, TNCs may change the geocentric orientation of their personnel policy to a regional-centric, which will result in a new level of equilibrium of the system of resources provision and the entire TNC business model as a whole.

Also possible are cases when TNCs fail to find a new situation of equilibrium. Then the internal crisis aggravates and the existence of a single complex system ceases. For instance, London Brick, Ever Ready Batteries, and

SCM could not adequately respond to growing competition, lost their positions, and were absorbed by the mighty restructurer Hanson Trust. For a company it is important to detect in good time the destructive cycles of the growing negative trends and take in good time as well compensatory measures or changes to preserve the system as a whole. The referred to properties of the system — interrelation and self-regulation — are the reasons for its dynamic nature. For a transnational corporation the systems approach may become an effective method of constantly updating its business model, adapting to the changes in the external and internal environments, and thereby constantly ensure its high competitiveness and, accordingly, a high level of market value for inflow of capital. Under the influence of a variable environment can be traced the transformation of strategic bearings and motivational reasons of transnational accumulation of capital with consequences that are orientated toward the modern priorities of development (economic democratization, socialization, ecologization). P.Druker violated the tradition of interpreting maximization of profit as a company's main objective by proposing to view survival as a company's main objective. In its endeavor to survive, a company pursues a number of specific «objectives of survival,» although in the system of proposed «objectives of survival» gaining «adequate» profit plays an important role<sup>21</sup>.

Some corporations begin reorienting their activities from superprofits to financial stabilization to be able to claim a humanitarian identity in the future by relying on social motivation. A brilliant example of such a humanitarian objective are the recent software programs by Microsoft intended for educational work in some countries of the Muslim world.

At the same time, as G.Soros remarked, people reproach Bill Gates for not surrendering the larger portion of his wealth; they do not understand that under the conditions of bitter competition he cannot even entertain dreaming about philanthropy. Although Soros prophesizes that now when he has been saddled with anti-trust litigations, philanthropy will probably become a part of his business strategy<sup>22</sup>. The current humanitarian orientation of Microsoft could be classified as being forced, or even hypocritical. But one can agree with Soros when he argues that in business people are concerned over what others say about them. In the practice of business, they may be purpose-minded, but when other public virtues are valued, they will at least pretend that public interests are not alien to them. And that would already be a step ahead compared to the current state of affairs<sup>23</sup>.

<sup>21</sup> *Мовсесян А. Г.* Некоторые особенности экономики США на рубеже веков // США, Канада: экономика, политика, культура. — 2001. — № 4. — С. 64—75. (*Nekotoryie ossobennosti ekonomiki SShA na rubezhe vekov.* [A.Movesian. Some Specifics of the US Economy at the Turn of the Centuries. USA, Canada: Economics, Politics. Culture. 2001, No.4, pp.64-75])

<sup>22</sup> *Сорос Дж.* Кризис мирового капитализма. Открытое общество в опасности / Пер. с англ. — М.: ИНФРА-М, 1999. — 262 с. (George Soros. The Crisis of World Capitalism. Open Society in Danger. Translated from English. Moscow. INFRA-M Publishers, 1999, p.XVI).

<sup>23</sup> *Ibid.*



Thus it can be argued that the cardinal changes in the conditions of the TNCs' economic management in the twenty-first century have caused not only a corresponding change in the preconditions and reasons of attraction of capital, but also in the consequences of this process. The TNCs' leitmotif in the twenty-first century will be not profit for the sake of profit, but stability for the sake of humanitarian identity, i.e. the Maslow theory is finding its application at a qualitatively new level.

As C.Parkinson put it, the battle for world domination has been won. And now, when prosperity has become a certainty, one can think about magnanimity and public welfare. Managers of concerns strive to be of benefit to people, and not simply people, but to the entire mankind<sup>24</sup>.

The possibility to attract and retain capital is caused, on the one hand, by the TNCs' ability to respond flexibly to the changes in the external environment for using the positive processes, avoiding negative impacts and ruinous crisis developments or minimizing them, and, on the other hand, by the presence of an internal potential of self-development that serves as a motive force of economic upsurge, shapes the capacity of the TNCs and ensures them a certain standing internationally. Both factors are interrelated and exert a certain influence on each other, making it possible to combine them into a single model that characterizes the successful activities of modern TNCs.

Although quite a few eminent scientists have been studying the design of a business model, its *architecture* remains not clearly defined to this day. Andrian Slyvotsky, for one, builds into the underlying basis of his generally known model such elements as diversification, type of activity, recovery of capital, market entry system, procurement and production system, intensity of capital, organizational structure, and selection of clients<sup>25</sup>.

Other researchers, such as James Collins and Jerry Porras<sup>26</sup>, presented a conceptual model of a company with «a vision» that consists of two main components — key ideology (key values, designation) and a visionary future (BHAG — Big Hairy Audacious Goal — an audacious 10-to-30-year goal to progress toward an envisioned future).

Without reducing the significance of these developments, it should be pointed out that they are predominantly of a marketing and psychological orientation.

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<sup>24</sup> Паркинсон С. Н. Законы Паркинсона / Пер. с англ. — М.: АСТ, 2002. — 474 с. (C. Parkinson. *Parkinson's Law*. Translated from English. Moscow. AST Publishers, 2002, pp. 474).

<sup>25</sup> Сливоцький А. Міграція капіталу: Як у замислах на кілька кроків випередити своїх конкурентів: Пер. с англ. — К.: Пульсари, 2001. — 296 с. (*Migratsia kapitalu: Yak u zamyslakh na kilka krokiv vyperedyty svoikh konkurentiv*. [A.Slyvotsky. Migration of Capital: How to Conceptually Outdistance Several Steps Ahead One's Competitors. Translated from English. Kyiv, Pulsary Publishers of Kyiv University, 2001, pp.296]).

<sup>26</sup> Коллинз Дж., Поррас Дж. Построенные навечно. Успех компаний обладающих видением. — СПб: Стокгольмская школа экономики в Санкт-Петербурге, 2004. — 350 с. (J.Collins, J.Porras. *Built to Last: Successfully Habits of Visionary Companies* [in Russian]. St.Petersbrug. Stockholm School of Economics in St.Petersburg, 2004, pp.350).

In our opinion, the capability of a model to attract capital should have a financial justification. Therefore, we applied a financial approach to study the possibility of building a business model on a fundamentally new scientific basis.

In the theory of finance, an increase in the size of capital, i.e. its inflow, is explained by the cyclic nature of capital turnover. In this connection, there is a need to introduce the notion of value cycle. When considering the viewpoint of US economists<sup>27</sup>, some Ukrainian scientists<sup>28</sup> point out individual stages of the value cycle, a deeper analysis of which will enable us to make certain generalizations and refinements.

Let us determine as a reference point of a value cycle the organization of types of business (**O**), which ensures a TNC's competitive position on the global markets. Depending on this position, profitability is formed as a component of cash flow, i.e. it determines the nature and size of funds (capital) of a TNC. The indicators of profitability and cash flows determine the market value of securities, which in their totality create the market value of a company's capital. At these stages of the value cycle the following interdependence appears: the higher a TNC's profitability the larger the size of cash flow and, accordingly, higher dividends on issued shares and their market value. The potential and current investors are undoubtedly interested in gaining income and the dividends on the shares and, consequently, in their price. The value of a corporation's shares investors quote on the financial market determines the corporation's access to the sources of external resources, specifically to the financial markets, for placing new shares or bonds. Free access to capital markets enables a TNC to use external sources of financing to expand or renew its fixed assets or for other purposes. The next stage of the value cycle consists in forming the total sum of corporate funds that are created by merging internal and external flows of capital, the internal flow being created for account of the undistributed profit and depreciation fund. Through the management of the newly created united flow of capital (**C**) a renewed system of resources provision (**R**) is formed, which within the framework of operation of the business model requires to improve the organization of the types of activity so as to consolidate the TNC's competitive position on the global markets. At this stage the value cycle comes to an end and everything begins again from a new competitive position that can be strengthened according to the renewed business model, or weakened if the business model does not adequately respond to the inflow of capital.

The development of a value cycle follows a spiral that can be rising or descending. Therefore, the main aim of the management of a TNC's movement of capital has to be the design of decisions that would ensure an upward trend

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<sup>27</sup> Strategic Financial Management / R.G. Clarke, B. Wilson, R.H. Daines, S.D. Nadauld. — Homework: Irwin, 1988. — pp. 729.

<sup>28</sup> Суторміна В. М. Фінанси зарубіжних корпорацій: Підручник. — К.: КНЕУ, 2004. — С. 36—41/ (*Finansy zarubizhnykh korporatsiy: Pidruchnyk*. [V.Sutormina. Finances of Foreign Corporations: a Textbook. Kyiv. National University of Economics of Kyiv, 2004, pp.36-41]).

in the development of the value cycle. When unwinding the spiral of the value cycle under the descending version, the latter stage leads to a TNC's improved competitive position evidenced by a larger sales markets and suppressed competitors owing to the flexibility of the business model, decrease in production costs, and increase in profitability. This is achieved by the systems approach to resolving the issues of resources provision or by the application of a flexible approach to the management of capital flows that promote the attraction of news clients, larger sales volumes or the capture of new markets.

In the final analysis, all this raises profitability, increases day-to-day cash flows, and facilitates the continued growth of the market value of capital, improving a TNC's access to financial markets and, along the renewed circle, makes it possible to improve the business model and strengthen the corporation's competitive position.

The analysis of the turnover (cycle) of capital and the economic management of modern TNCs makes it possible to identify the main components that are capable of building the internal potential of self-development of TNCs (see Fig.3)<sup>29</sup>.

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<sup>29</sup> Руденко Л. В., Руденко М. С. Детермінанти внутрішнього потенціалу саморозвитку транснаціональних корпоративних структур у контексті глобалізаційних процесів // Зовнішня торгівля. — 2006. — № 3(26). — С. 103—112. (*Determinanty vnutrishniogo potentsialu samorozvytku transnationalnykh korporativnykh struktur u konteksti globalizatsiynykh protsesiv*. [L.Rudenko, M.Rudenko. Determinants of the Internal Potential of Self-Development of Transnational Corporate Structures within the Context of Globalization Processes. *Foreign Trade* magazine No.3(26), 2006, pp.103-112]).

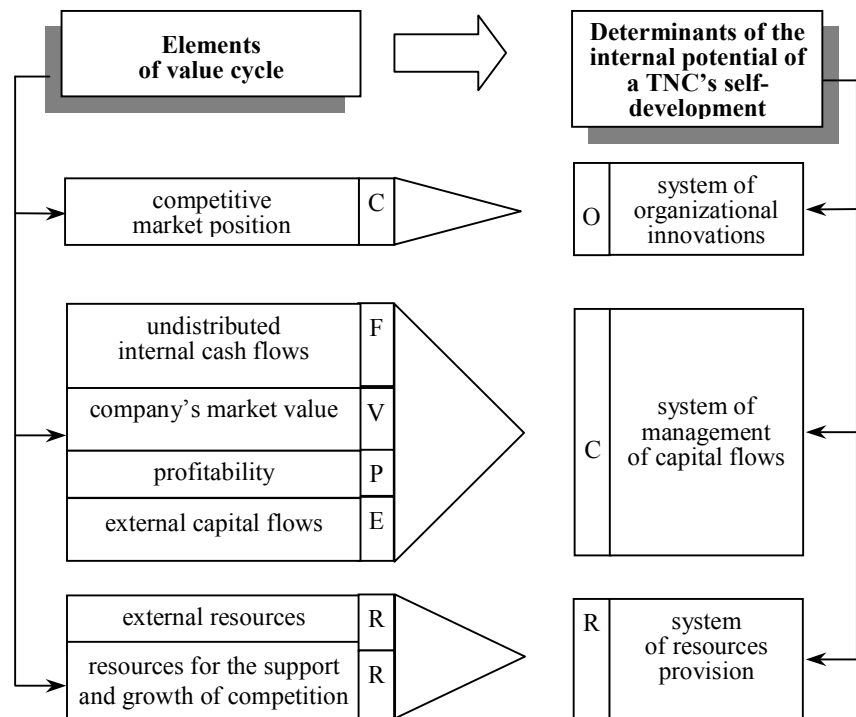
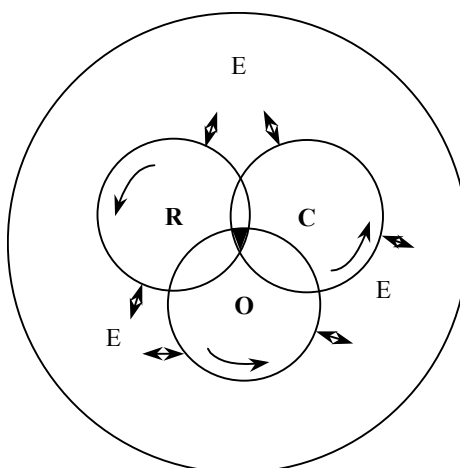


Fig.3. Interrelationship of the value cycle elements with the determinants of a TNC's internal potential of self-development<sup>29</sup>

Above everything else, it is the system of resources provision (R) that consists of intellectual personnel, information, innovation, material production, and financial resources: the system of management of capital flows (K) that is interrelated with the complex system of analytical evaluation of the financial status; the system of organizational innovations (O) that determines the form of a TNC's foreign activity from the moment a subsidiary is set up to the day of its possible merger or acquisition.

All the components determining the internal potential of a TNC's self-development are in a state of interrelationship with one another and the surrounding environment (see Fig.4).



*Conventional signs:* *R* — resources provision system; *C* — management of capital flows system; *O* — organizational innovation; *E* — external environment; ■ — capital accumulation zone

Fig.4. Interrelationship of elements in a TNC's dynamic polysystem business model

The rational management of such interrelationships ensures maximum in-flow of capital into a corporation, i.e. an increase in the profits and market value of a TNC<sup>30</sup>.

The issues of an enterprise's *resources provision*, the dependencies, composition of resources, achieved results of activity, and the evaluation of the sufficiency of the resource potential for the achievement of the projected indicators of activity have been actualized by the modern dynamic process of economic development and the operation of qualitatively new entities of economic management.

The totality of an enterprise's resources creates the basis for the formation of its resource potential, since the system of resources belongs to a large degree to the description of resource flows used in the production process, while a resource potential primarily means the presence of sources of resources. The resource potential takes into account the direction, expansion, replenishment and reproduction of resource sources. An enterprise's resource potential is created only through the possibility of the resources taking part in the production process.

The importance of a TNC's resources provision requires a separate examination of the structural components of a corporation's resources on the basis

<sup>30</sup> Руденко Л. В. Управління потоками капіталів у сучасній бізнес-моделі функціонування транснаціональних корпорацій: Монографія. — К.: Кондор, 2004. — 480 с. (*Upravlinnia potokamy kapitaliv u suchasnyy biznes-modelei funkcionuvannia TNK* (L.Rudenko. Management of Flows of Capital in the Current Operation of TNC Based on Business Models. Kyiv. Kondor Publishers, 2004, pp.480)).

of their systematization and interrelation with the external environment. The provision of specific types of resources has to be harmonized with the main objective of resource management and requires the construction of a tree of goals intended for the efficient operation of a dynamic polysystem business model of a TNC's development. The heterogeneity of the resource management system requires TNCs to raise the quality of resource management at all levels.

The international nature of a TNC's economic management foresees a robust activity on diverse markets, the number of which is constantly growing, while, at the same time, the nature of presence on individual markets is changing. This requires constant improvement of the forms of organization of international business and, accordingly, confirms the dynamism of a TNC's business model under the influence of such an important determinant as *organizational innovations*.

The choice of the best possible form of organizing foreign activity is reflected in the models proposed by S. Hirsch, T. Agmon, P. Buckley and M. Casson<sup>31</sup>, who explained economic expedience by one of the three following alternatives: export, licensing and direct foreign investment. The first two forms make it possible to engage in international business without setting up a new enterprise, i.e. within the framework of international cooperation and international trade. Direct foreign investment makes it possible to realize not only contractual forms, but also to ensure the possibility of establishing a new business entity, as, for example, a joint venture or a foreign affiliate.

Relying on the analysis of the operation of successful foreign TNCs and literature<sup>32</sup>, we can arrive at the conclusion that the range of economic methods and models of a TNC's activity — expressed in the approaches to the organization and management of intra-company markets and other methodological innovations — is constantly expanding under the influence of both the internal and external factors of a TNC's operation.

The organizational-methodological flexibility of TNCs is required by the task to constantly improve their structure, adapt it to the dominating environment in their home and host countries, and to coordinate and manage the activity of subsidiaries so as to consolidate their operation in the achievement of general corporate goals, specifically for the promotion of a corporation's self-development and formation of its internal potential. The experience of suc-

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<sup>31</sup> Hirsch S. An International Trade and Investment Theory of the Firm. — Oxford: Economic papers, 1976. — pp. 258—270; T. Agmon, S. Hirsch. Multinational Corporations and the Developing Economics: Potential Gains in a World Imperfect Markets and Uncertainty. //Oxford Bulletin of Economics and Statistics. — 1979. — № 41. — pp. 333—334; P. Buckley, M. Casson. The Economic Theory of the Multinational Enterprise. — London: Macmillan, 1985. — pp. 96—120.

<sup>32</sup> Buckley P., Casson M. The Economic Theory of the Multinational Enterprise. — London: Macmillan, 1985. — P. 96—120.

<http://www.gm.com>, <http://www.ge.com>, <http://www.fm.com>, <http://www.ibm.com>, <http://www.toyota.com>, <http://www.forbes.com/forbes>

successful corporations<sup>33</sup> — such as Vodafone, General Electric, Ford Motor Company, General Motors, Royal Dutch/Shell Group, Toyota Motor Corporation, Hatchison Wampoa Ltd. Nestle, IBM, and Lukoil — show that the organization of international business must be based on a systems approach providing for diverse flexible methods and forms of activity, namely:

- contractual forms and strategic alliances distinguished for the power of inter-company dependence of partners;
- amalgamation forms of development characterized by a company's degree of aggressiveness and behavior inherent in TNCs in the developed countries;
- foundation (reorganization) of new structural units, manufacturing enterprises or detached departments on the «method from zero» basis typical for the behavior of TNCs mostly in the developing countries.

The proposed classification approach to the methods of organizing international business is fundamentally new in the design of an organizational innovation system.

*Management of capital flows* is the core of a TNC's financial policy, since a company must be confident in the possibility of attracting enough circulating funds through different sources in the short-term and long-term outlook, lest obstacles arise in any areas of the company's international activity. For this purpose TNCs apply certain specific models and structures that are selected for the best possible placement and management of capital globally.

A TNC's management of capital flows has certain specific features that derive from two factors:

- presence of internal links within a corporation that cause the existence and, accordingly, require management, and intra-corporate capital flows;
- international nature of activity derived from external economic ties of a TNC's outlets with different business entities internationally and, therefore, the existence of capital flows differentiated as inward (2) and outward (3).

Thus two interrelated cash flows emerge. Their best investment for achieving the principal strategic objective of a TNC is possible only through the application of a systems approach to their management. The presence of two economically different cash flows occasions their purpose as 1) operational, i.e. working capital that is divided into internal, external, as well as inward and outward; and 2) discretionary that may have added or negative value.

The presence of a TNC business model requires the generation of capital stocks out of internal and external sources. Yet their interrelationship is determined by the economic and financial objectives of definite corporation at each definite moment. All mobilized cash stocks have to be used, i.e. the sum of the sources should equal the sum of expenditures. There may not be ex-

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<sup>33</sup> <http://www.forbes.com/forbes>, <http://www.gm.com>, <http://www.ge.com>, <http://www.fm.com>, <http://www.ibm.com>, <http://www.toyota.com>,

penditures that are not covered by sources, just as there may not be any free, that is «not committed» stocks.

To identify the *elements of the external environment* and make it easier to allow for their influence on a TNC's activity, the external factors are divided into two major groups: factors of direct influence that instantly impact on the transactions and are directly affected by the TNC's transactions, and factors of indirect influence that do not directly impact on the transactions, but their effect on the factors of direct influence change the effectiveness of these transactions<sup>34</sup>.

On the basis of our studies of the internal potential of a TNC's self-development and the environmental shell, we can arrive at the conclusion that in their interrelationship the referred to components cause a TNC's dynamic business model to impact on the inflow of capital. As the well-known researcher of business models, A. Slyvotsky<sup>35</sup>, argues, the inflow of capital is not a permanent phenomenon, but is characterized by certain phases (inflow, stability, outflow), which occur due to the model's ability to place resources, organize capital flows and satisfy clients much better than the competitors can do it. As the model passes these three phases, its ability to generate profit increases gradually and eventually declines.

To remain competitive, a company must understand the ability of its business model to seize capital in the phase of inflow, to be permanent in the phase of stability, and be susceptible in the phase of outflow. A reasonable response to external events depends to what extent a TNC's top management understands its own business model and the one of its competitors, and also on how these events will change the priorities of the business partners. A prompt response to changes (when the competitors are just thinking over their future actions) helps a TNC to reduce losses to a minimum and even derive maximum gain. The achievement of such a goal is promoted by the systems and dynamic approach to the design of the business model's architecture.

#### *Modification of TNCs' business models in the current environment*

Since the main determinant of behavior of a system-oriented TNC is the purpose of the system, definite changes and innovation should be the main purpose within the context of polysystems approach to the management of business models. The dynamism of the system can manifest itself in different aspects. It can occur in different dimensions:

<sup>34</sup> Соснин А. С., Мельниченко Л. В. Основы теории и практики менеджмента: Конспект лекций. — К.: Европ. ун-т, 2001. — 216 с. (*Osnovy teorii i praktiki menedzhmenta: konspekty lektsiy* [A.Sosnin, L.Melnychenko. Fundamentals of the Theory and Practice of Management: Lecture Notes. Kyiv, European University Publishers, 2001, pp.216]).

<sup>35</sup> Сливоцький А. Міграція капіталу: Як у замислах на кілька кроків випередити своїх конкурентів: Пер. с англ. — К.: Пульсари, 2001. — 296 с. (*Migratsia kapitalu: Yak u zamyslakh na kilka krokiv vyperedyty svoikh konkurentiv*. [A.Slyvotsky. Migration of Capital: How to Conceptually Outdistance Several Steps Ahead One's Competitors. Translated from English. Kyiv, Pulsary Publishers of Kyiv University, 2001, pp.296]).



1) *partial dynamics*, when one system element of the model changes: — R changes during the invariable C and O; — C changes during the invariable R and O; — O changes during the invariable R and C;

2) *full dynamics*, when simultaneous changes affect all the system elements of a model;

3) *full static*, when not a single of the system elements of a model undergoes any changes throughout the full period of time.

Analyzing the outlined scenarios of a model's dynamics, it should be pointed out that they are hypothetical to a certain extent. In real economic practice, situations occur when the components of a polysystem business model are dynamic under other scenarios as well, and besides the pace of the changes and their starting periods may not coincide. Moreover, the influence of the external environment also plays an essential role. In such cases, a business model is managed, proceeding from definite circumstances.

A dynamic environment is concerned with speed, at which the changes occur in a corporation's environment. That is a general phenomenon. But its significance depends not only on a definite TNC (its possibility to promptly response to the appearance of external environment factors), but also on internal factors that respond to the external irritants. The insufficient identification of the external environment is a function of the array of information a TNC (or its manager) possesses about each definite factor, and also it is a function of certainty in the trustworthiness of the information. If the information is few or its trustworthiness doubtful, the environment is less identified and less predictable for use or adaptation, which means that it is difficult to make effective decisions.

By understanding the essence of the external environment and using the effects of its factors with the help of certain mechanisms, make the TNC feel more confident in the world of business.

Harmonization of the dynamic changes in the business model with the changes in the environment relies on the application of the concept of environmental business.

Permanent and systematic updating, development and improvement of all or separate components of a business modal is a normal practice, which makes a TNC gain the ability to retain or enhance its competitiveness.

To intercept the possible outflow of capital, a TNC has to make a decision on changing the business model in good time and thereby retain its market position and even improve it (see Fig.5). Only a constant monitoring of the situation, which offers the opportunity for designing new business models, as well as the constant detection of competitors will help the TNC to find an advantageous position in the next cycle of capital migration.

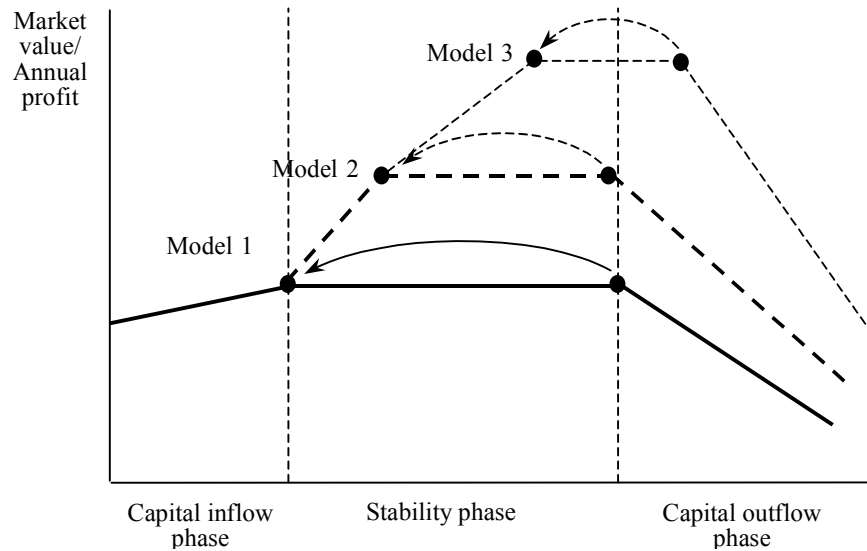


Fig. 5. Design of a new business model for the interception of capital growth

So we can argue that the status of constant updating of a TNC business model is a mandatory condition to retain and raise the efficiency of its activity by adapting to the market requirements and changes occurring on the market, in the economy and politics, as well as in other areas of the environment.

The new leaders in business achieved success by reorienting their business models. Dell, for one, changed its approaches to organizing its system of distribution; Nike changed the system of resources provision insofar as it concerned the siting of its main production facilities; and the steel manufacturer Nucor designed a fundamentally new R&D system on the basis of innovational and intellectual resource approaches. Toyota Corporation is fundamentally changing its business model by applying a systems approach to resources provision (information base restructuring, personnel training, innovation in marketing), reorienting the organizational system of its operation (new trade system), and flexibly managing capital flows on a day-to-day basis. In 2001, it changed the strategic priorities of siting its main production facilities and reduced its foreign activity by 33 %. Instead of concentrating on the dimensions of output, Toyota began improving the management of capital flows and forming an innovational resource. Hewlett-Packard completely discarded the idea of independent production, switching over to contractual terms of operation under outsourcing. In all, in 2002 40 % of the computer manufacturers outsourced over 90 % of their production.

The success of Vodafone Airtouch Groups Services Corporation, a British desktop communications operator, is explained by the change in its organizational form of operation toward active acquisition. At 2002 it signed 28 agreements worth US \$297.6 billion, which amounts to an average of US

\$10.6 billion per one agreement and ensures new capital inflows and market position growth.

In order to gain profits, TNCs must design new or alter their existing business models. Given the constant reduction in the life cycle of a business model, TNCs are compelled to modify their business models and design their future versions. For small TNCs, foresight is becoming an integral condition of their existence and survival. But for the experienced world giants used to immense annual profits, the vision of the future is a much more complex task. Judging from the example of the rapid migration of capital from IBM and other global TNCs, a stable status is not always a guarantee of long-term security. Only by constantly designing new business models can a TNC count on entering a new cycle of capital growth. The design of a business model is at the same time a meticulous and creative process. The economic capacity of a business model depends on its ability to function as a single system. Similar, adopted and outwardly inconspicuous elements of a business model are capable of generating huge capital if applied in an original way.

### **Conclusions**

Stable development has become the priority objective for the majority of TNCs. Moreover, special importance is attached to «active stability» because it can accumulate and retain capital even in crisis situations, which is promoted, on the one hand, by the ability of TNCs to respond flexibly to the changes in the external environment for using the positive processes and avoid negative influences and ruinous crises or minimize them, and, on the other hand, by the presence of a potential of self-development that acts as a motive force of economic upsurge, shapes the power of TNCs, and secures them a certain position internationally. Both factors are interrelated and exert a certain influence on each other, which makes it possible to combine them into a single model characterizing the successful activity of modern TNCs.

The capability of a model to accumulate capital should have a financial justification. On the basis of the value cycle theory, we identified the main components that can form the internal potential of a modern TNC's self-development: resources provision system; capital management system interrelated with a complex system of analytical evaluation of financial standing; and a system of organizational forms of a TNC's operation. The rational management of such interrelationships ensures maximum inflow of capital into a corporation, i.e. an increase in the profits and market value of a TNC.

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