Systematisation and analysis of MNCs’ models of conduct for entering the national agrarian markets

Abstract. The article deals with the main models of MNCs’ behaviour in the process of entering the national markets. The authors have analysed the main forms of participation of MNCs in the production processes in the agricultural sector and defined the major trends and perspectives of MNCs’ functioning in the Ukrainian agrarian market.

Keywords: Transnational Corporations; Foreign Direct Investments; National Agrarian Market; Farming

JEL Classification: F15; F23; Q17

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1. Introduction and Brief Literature Review

Many scientists and businessmen have studied and researched general directions and trends in globalisation processes. Multinational corporations (MNCs) are considered to be the main power which has accumulated world’s economic integration processes. U. V. Makohon, T. V. Orekhova, K. V. Lyсенко and I. O. Shulha have researched the total transnational processes in Ukraine deeply but they have not differentiated them into the national economic branches [5]. U. Samaeva has singled out the main problem of the Ukrainian agricultural sector, which is related to exports of its raw materials [3]. However, this author has not stressed on the globalisation processes and their influence on the development (or degradation) of national economies.

Jean-Marc Fournier (2013) wrote about «the negative effect of regulatory divergence on the foreign direct investment... The divergence of command, control regulations and protection of incumbents (antitrust exemptions, entry barriers in networks and services) reduce the cross-border investment. In addition, countries with higher employment protection have both less inward and less outward FDI, and there is some evidence that more complete complex of regulatory procedures reduce inward FDI» [7]. Thus, he has concentrated his researches on the global FDI without focusing on the national sectors.

S. Wood and J. Reynolds (2014) investigated «establishing territorial embeddedness within retail transnational corporation (MNC) expansion: it is considered to be the contribution of store development departments». They analyse different «emerging practices of international expansion planning by drawing on interviews across a sample of store development departments. The competitive and regulatory dynamism of regions means that behaviour which encourages greater embeddedness following market entry can be particularly helpful in the strengthening the marketing and development strategies of international subsidiaries» [8]. Nevertheless, these authors have not observed how the activities of multinational corporations have affected the agricultural sector of the national economy.

G. Letto-Gillies (2014) has developed the theory of the transnational corporation (TNC) and its defining activity - foreign direct investment (FDI). This author has pointed out the following tasks: to answer the question why firms become transnational and define the modalities of their activities taking into consideration FDI as their main activity [9]. This work helps us to understand why some countries become host or home (or both) for TNCs and FDI but it does not explain the results of interaction between TNCs (their FDI) and national economics. We have tried to incorporate aspects economic research such as forms of MNCs functioning, their influence over the national economy and the development agricultural production.
Christopher Williams and Soo Hee Lee (2016) worked out and approbated «a new model of knowledge flows in the emerging market» of multinational corporation (MNC) based on the way where people are managed in its foreign subsidiaries. Using questionnaire survey data from senior managers of 86 Korean MNC subsidiaries in the UK, France and Germany, the authors have found that different aspects of subsidiary human resource management (HRM) practices exhibit different direct and indirect effects on MNC performance. Studying the role of subsidiary HRM practices in Korean MNCs, these authors have found out that a participative climate within the company enhances both personnel inflows and outflows at the level of the subsidiary in the emerging market.

M. S. Hammoud and D. P. Nash (2014) have pointed out «foresight involvements oriented to awareness and planning, enabling businesses to respond quickly and effectively to future market threats and opportunities. Corporations interested in implementing foresight are unable to identify best practices or anticipate results from foresight activities... The four tenets emerging from the themes were: short-termism, corporate culture, implementation and feedback loop; these tenets should guide future usage of foresight in the context of for-profit corporations» [16].

O. Mitiai, P. Tychyna and V. Lahodienko (2013) have researched the problem of competitiveness of agricultural enterprises as the main factor of sustainable development in the agricultural sphere. The authors have assumed that the sustainability of development of agricultural enterprises has been grounded through the mobilisation of their internal resources in order to create a rational structure of production. In conclusion, we understand that their research regards interrelations between the sustainable development of the agricultural sector and the competitiveness of agricultural enterprises, a factor which may improve sustainability of the environment [17].

2. Purpose

The purpose of our research is to consider and analyse the main models of MNCs' behaviour in the process of entering the national markets, to define the major forms of participation of MNCs in the production processes of the agricultural sector and to determine general trends and prospects of functioning of MNCs in the Ukrainian agrarian market.

3. Results

The main share of foreign direct investments belongs to MNCs. Due to their integration into the international markets, MNCs dictate economic policy all over the world. According to the UN data, there are 70,000 MNCs in the world economy. They control over 670,000 foreign companies, where 74 million people are employed [2; 4]. According to the data «Fortune» — a multinational business magazine, there exist four complexes that play the main role through the 500 biggest MNCs. They are: electronics, oil-processing, chemical industry and automobile construction. Furthermore, MNCs' investments have strong regional and trade features. Generally, they invest in the manufacturing industry of developed countries. In this situation, there is a strong competition among recipient countries in order to get investment capital. A different situation is observed in the poorest countries. MNCs consider it is more expediently to invest in the extractive industry and increase the level of product export. In this situation, there is a hard competition between MNCs with regard to pushing their products into the national markets. [2; 4]

MNCs' branches, which are functioning in the different countries of the world, are considered to be a strong mechanism. They are controlled from their native countries and avoid control from the part of the national government. It gives a possibility to hide real profit and not to pay taxes, transferring capital from one country to another. MNCs control 90% of the world market of wheat, coffee-beans, corn, wool, tobacco and iron ore, 85% of copper and bauxites, 80% of the tea market and tin, 75% of raw oil, natural rubber and bananas [1; 3].

Since 2004, Nestle S. A. has invested in the Ukrainian economy about UAH 2.5 billion (~ EUR 89.3 million, at 1 EUR = 28.00 UAH). In 2010, Nestle's enterprises in Ukraine paid UAH 88.8 billion of different taxes and fees (~ EUR 11.6 billion, at 1 EUR = 28.00 UAH) to the state budget [14].

In 2013, Nestle in Ukraine demonstrated essential growth, particularly in the categories of confectionery (1.9%), nutrition (8%), prepared dishes (14%) and «PetCare» goods (11%) and strengthened its leading position in offering new products which satisfy market needs [13-14].

In 2015, Nestle's sales decreased by 3.1% to CHF 88.8 billion, impacted by foreign exchange of -7.4%. Organic growth was 4.2%. It consisted of internal growth (2.2%) and pricing (2.0%). Acquisitions and divestitures added 0.1% to sales. Investments in the development of all business areas amounted to more than CHF 1.5 billion. Along with the reduction of structural value, this allowed it to consolidate its support of brands and diminish its cost disadvantage. Total marketing costs rose by 60 basis points, while consumer-oriented expenses increased by 16.3% in hard currency [14]. See table 1.

The organic growth of Nestle's group of companies varies as follows: it was 3.7% in America, 3.7% - in Europe, Middle East and North Africa and 0.5% - in Asia, Oceania and Sub-Saharan Africa. Business in mature markets rose to 1.0%, or CHF 51.4 billion. Business in emerging markets rose by 9.3%, or CHF 40.8 billion [14].

Real internal growth amounted to 1.6% in America, 2.5% in Europe, Middle East and North Africa and -0.1% in Asia, Oceania and sub-Saharan Africa. It reflects priorities, which have helped Nestle to demonstrate dynamics in the market: to stay competitive and offer consumers the best price, to invest in brands and create opportunities to win in the current economic environment. Investments in the modernization of communication infrastructure and production expansion in the factories of Nestle's group in Ukraine amounted to UAH 113 billion (~ EUR 4.0 billion, at 1EUR = 28.00 UAH) [14].

Danone was one of the first international companies that entered the Ukrainian market and started a new era of large-scale production of yoghurt, a natural food product, which is useful for health. The Danone Group is represented in 120 countries. The company owns 160 plants and employs 80,000 persons. In 2009, Danone's sales were EUR 15 billion with the net profit of EUR 1.4 billion. Danone Ukraine has 8 regional representative offices and 3 plants in Kyiv, Kremenchuk and Kherson [15-16].

Danone's gross total share of the Ukrainian dairy product market (as of August 2011) was 23.9% in money terms. By the volume of production of modern dairy products the share of Danone-Unimilk was 43.8%, whereas the share of traditional dairy products comprised 15.5%. Before the merger of companies, as of August 2010, Danone's share of all dairy products in the Ukrainian market was 12.5% and the relevant Unimilk's share was 8.3%. Organic growth of dairy products at the plants of the merged company was more than 130 thousand tons per year [15-16].

Financial results of Danone Group are shown in table 2. The Exchange rates and the scope of consolidated sales were +4.4% up. Thus, the impact of exchange rates and the scope of operations is useful for health. The Danone Group is represented in 120 countries. The company owns 160 plants and employs 80,000 persons. In 2009, Danone's sales were EUR 15 billion with the net profit of EUR 1.4 billion. Danone Ukraine has 8 regional representative offices and 3 plants in Kyiv, Kremenchuk and Kherson [15-16].

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<table>
<thead>
<tr>
<th>Year</th>
<th>Sales, CHF billion</th>
<th>+ (–), %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>92.2</td>
<td>2015</td>
</tr>
<tr>
<td>2015</td>
<td>88.8</td>
<td>-3.1</td>
</tr>
<tr>
<td>Organic growth, %</td>
<td>4.6</td>
<td>4.2</td>
</tr>
<tr>
<td>Trading operating profit margin, %</td>
<td>15.2</td>
<td>15.1</td>
</tr>
<tr>
<td>Earnings per share, CHF</td>
<td>2.38</td>
<td>2.3</td>
</tr>
<tr>
<td>Operating cash flow, CHF</td>
<td>11.6</td>
<td>14.3</td>
</tr>
<tr>
<td>Proposed dividends, CHF per share</td>
<td>2.15</td>
<td>2.3</td>
</tr>
</tbody>
</table>

Source: Compiled by the authors using [14]

Tab. 2: Financial results of Danone Group, 2013-2015

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales, EUR million</th>
<th>+ (–), %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>21.06</td>
<td>2015</td>
</tr>
<tr>
<td>2015</td>
<td>22.4</td>
<td>+6</td>
</tr>
<tr>
<td>Organic growth, %</td>
<td>4.6</td>
<td>4.4</td>
</tr>
<tr>
<td>Trading operating profit margin, %</td>
<td>13.2</td>
<td>12.9</td>
</tr>
<tr>
<td>Earnings per share, EUR</td>
<td>9.1</td>
<td>11.7</td>
</tr>
<tr>
<td>Operating cash flow, EUR million</td>
<td>2.18</td>
<td>2.37</td>
</tr>
<tr>
<td>Proposed dividends, EUR per share</td>
<td>1.5</td>
<td>1.6</td>
</tr>
</tbody>
</table>

Source: Compiled by the authors using [13]
consolidation was about 1.6%. The +2.0% exchange-rate effect reflects favourable trends in currencies including the US Dollar, the Euro and the British Pound. The -0.4% impact reflects favourable trends in currencies including the US Dollar, 36

Hudym, K., & Khalatur, S. / Economic Annals-XXI (2016), 159(5-6), 34-37

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The producer can limit its presence in the international market to conclude contracts with the import wholesale buyer, which allows delegating some of its sale and marketing functions to the buyer in the relevant country or region.

Nowadays, this strategy is widely popularized. For example, Korean and Italian companies produce their goods in their native countries, whereas selling abroad. Japanese corporations have been doing the same for the past 80 years.

There are many ways for foreign capital to be used for the national agricultural production. Taking into consideration that there is a restricted access to the landowning in the Eastern region, MNCs have switched to new forms of capital investment.

The production process could be divided into several stages. Stage 1 is investing in means of production. Stage 2 is investing in agricultural production. Stage 3 is investing in the processing industry, storage and infrastructure.

The producer must be provided with equipment, seeds and fertilizers while realizing the first stage. German and American MNCs, such as BASF AG, Bayer AG, Dow Chemical Company, Monsanto, are among the leaders here.

Agricultural enterprises get FDI during the second stage. Malaysian, Thai, Indian and American MNCs, such as Sime Darby Bhd, Kuala Lumpur Kepong Bhd, Kulim Bhd, Charoen Pokphand Foods, Karurublu Global Ltd, Dole Food Company, Fresh Del Monte Produce, are the leaders of the second stage [4].

Stage 3 encompasses investing, selling, storing, transporting and processing of foods. The European, American and Singapore MNCs are among the leaders here. Swiss «Nestle» specializes in the production and processing of foods, while the US Wall Mart or McDonalds and the German (Metro) are the major wholesale buyers, etc.

Limitations in the business area (as for agricultural production) may result in appearance of interesting forms of investments. There are five positions by which foreign capital can be invested in the agricultural industry. Firstly, it can be direct private investments in production, which means asset ownership (including land plots) with the ownership of land or extended lease of land, etc. Contract farming (tea, coffee beans, sugar cane, tobacco) joins the first and the third stages. The second stage is for the national small producers.

There exist several types of contract farming. The classical one means that many small farmers sell goods to MNCs using long-term and short-term contracts. While in this process, MNCs make vertical coordination and control the quality.

Different types of contract farming enable the following: to cover the expenditures for the production materials (inside of the country on the MNC’s plantations); to provide small farmers with means of production (fertilizers, different kinds of technical equipment); to conduct scientific researches and transfer knowledge, to cooperate with other middle-sized farms, etc.

Standardisation and specification, as well as buying a special product at a guaranteed price, ensure MNCs' investments into the production management, the scientific researching and transferring of technologies. For example, Nestle and Danone buy organic goods.

The processes of globalisation and integration and the world food crisis have actualised the questions of choosing the place of application of the Ukrainian agricultural sector in the world economic system, devising of adequate means of agricultural policy in order to form the national food security.

The Ukrainian agricultural production can make a breakthrough to the world market because it has used only a third part of its potential, compared with the traditional actors among whom are the USA, Canada and the EU.

Nowadays, the production sector of the national agricultural sector is distorted. The biggest part of Ukrainian production process has low or medium level of processing, the result of which is that the country's lowest position in the world market. Therefore, a change between the production of raw materials, ready goods and services is a very important in the course of transforming the structure of agricultural economy.

It should be pointed out that it is necessary to remember that Ukraine’s agriculture is export-oriented. This can be explained by the fact that the domestic demand is weak and the price in the national market is low. Taking into account that exports of agricultural products increase the sales of the relevant produce, we can assume that economic growth in the Ukrainian agricultural sector is only ensured through exports.

Agricultural MNCs try to enter all market niches of this sector and maximise their profits. The structure of the end price paid by the customer could be defined as follows: 20% is the farmer’s share; about 40% is for processing; the rest is for marketing, advertising and transportation [1].

Many MNCs came into the Ukrainian market at the beginning of 1990s, considering Ukraine as a strategically important region for food production. MNCs seek to get new export markets, to stabilise their positions in those markets and to be able to use new raw materials. Activities of modern agricultural MNCs cover above all the production and the processing sectors of the Ukrainian agriculture. The engineering industry, chemical industries, trading and financial companies, processing enterprises and food producers could be examples of such MNCs. But the process of production in the Ukrainian agriculture is unique and it could be defined as «overconcentrated».

Privatization has begun to flow in the agrarian business after the agrarian reform in the year 2000 when all collective farms were transformed into private farms.

For example, CNH (Case New Holland) has been functioning from the Ukrainian agricultural market since 1997. Now it is a leading agrarian and equipment building company. Vertical integrated structures based on the joint ownership have been the most successful in agribusiness. Enterprises with such a structure enable the largest agricultural production and accumulate big land areas. Astarta-Kyiv LLC joins 7 sugar manufactures. It grows maize, sugar beet and sunflower. It has several cattle farms and processes fruit and vegetables. Also, it has at its disposal 133.5 thousand hectares of arable land [4].

Many big companies plan to expand their land use. Land West Company, a Ukrainian group companies, specialises in growing maize and oil plants. It uses about 164 thousand hectares of arable land and is planning to increase this area to 300 thousand hectares. «Agrotrum» prognoses to expand land using from 120 to 200 thousand hectare of ploughed field. Another example is Landcom International which is planning to increase its land use from 54 to 350 thousand hectares of arable land [4]. This fact allows concluding the following: 1. In the nearest future, big agrarian enterprises will increase their land use 1.5-2 times.

2. MNCs want to do business in agricultural sector neither in order to simply get access to raw materials nor in order to have preferences as agricultural producers nor to decrease their transaction expenditures. They want to become landowners, when the moratorium on sale of land plots of agricultural designation ceases to be in force. In view of the facts mentioned above, because of that now there is a practice of selling the right to land use at present. It means that MNCs will try to control most of the Ukrainian agricultural sector. As a result, there is a hard competition between the major players in the land market and small producers who sell their right of land use to larger companies at a high price.

Capitalisation of agricultural production has established a new kind of business: the establishment of a joint agrarian company which is developed to a high level to be sold. Therefore, such a business becomes a successful one and it could be defined as «overconcentrated». Private capital has begun to flow in the agrarian business after the agrarian reform in the year 2000 when all collective farms were transformed into private farms.

Private capital has actively begun to flow in the agrarian business. In the agricultural sector, the big agrarian enterprises are the leaders which have preferences as agricultural producers nor to decrease their transaction expenditures. They want to become landowners, when the moratorium on sale of land plots of agricultural designation ceases to be in force. In view of the facts mentioned above, because of that now there is a practice of selling the right to land use at present. It means that MNCs will try to control most of the Ukrainian agricultural sector. As a result, there is a hard competition between the major players in the land market and small producers who sell their right of land use to larger companies at a high price.

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who is the real owner of such an entity in the process of capitalization of agricultural production. Foreign direct investments, however, they do not direct the funds to increase research and development of agricultural production, which is observed from year to year. The volumes of investments do not meet the optimal level to provide a larger scale of agricultural production. Intensive expansion of foreign capital is observed in the processing industry and have a considerable influence on the export policy. However, it is essential to attract foreign investors’ attention.

It is supposed that this capital is necessary to acquire the new machines, equipment, modern technologies, effective management and a new corporate culture. Integration of Ukrainian private capital is possible under the influence of different factors, which is why it has many forms.

4. Conclusions

MNCs play a very important role in the development of any region because they are owners of large amounts of resources (material, human and natural), have an effect on the social situation and affect the development of the world scientific thought.

Agricultural MNCs are the major suppliers of high-tech products and services for the Ukrainian agricultural production. In recent years, the influence of agricultural MNCs on the economic processes happening in the world has increased. It could be explained that the structure and the financial potential of some MNCs are equal to the budget of a small county [11].

Nevertheless, there is a lack of Ukrainian MNCs and financial and industrial groups in the national economies which will be able to make a basis of the successful national economies and to be highly competitive abroad. Such a trend has been observed for the past several years. As a result, the number of private farms has been decreasing, whereas the land use has been increasing. Thus, commercial growers lose a great part of their profit and have no possibility to increase their capital. Finally, the process of modernisation of the national economy is very slow.

We think it necessary to change forms and methods of government regulation of the Ukrainian agrarian sector and to stimulate private farmers to apply progressive methods in production, which will allow the latter to establish competitive production according to ISO requirements. An incentive system of the agrarian sector should include a balanced tax policy, a rational government policy for landowners and land tenants, as well as means to protect national producers.

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