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INTERNATIONAL EXPANSION AND TRANSITION TO THE NETWORK STRUCTURE OF THE MULTINATIONAL COMPANIES AND THEIR SOCIAL CONSEQUENCES

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Abstract

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Economic globalization is associated with growing interconnectedness, interdependence and the integration of businesses into a single economic system, improving the competitiveness of businesses, and places new demands and requirements on firms. Companies that wanted to survive in a new, dynamic and competitive environment had to apply new development strategies, whose main motto was to reduce costs and to create greater flexibility on the global market. Many large companies managed huge cost reductions in the globalized economy through international expansion to the industrial periphery and semi-periphery countries (developing countries and Central and Eastern Europe) and through the transition from a pyramidal organizational structure to a network structure. The control centre of companies in a network organization deprives hierarchical and pyramidal corporate structures, rather temporarily joins a network of small suppliers, subcontractors and service providers. In the business environment networks are more flexible and adaptable than firms with a hierarchical structure. They are highly effective because they allow significant reductions in the operating costs of the company. On the other hand, the network structure of relations has a number of social consequences, such as the reduction in the number of employees, the rise in non-standard employment contracts and the abolition of responsibility.

Keywords: economic globalization, multinational companies (MNCs), international expansion, network structure, new international division of labour, flexibility of work

INTRODUCTION

We understand economic globalization as integration that is ever more intensive, connectedness and mutual dependence of economic entities in a single economic system. The driving motor of globalization is globalization of economic activities, represented by interconnecting production and markets of various companies. The economic recession in the 1970s, along with destabilization of the Brettonwood system, caused a growth in economic interdependence, deregulation and liberalization. Companies wanting to survive in the new dynamic environment had to apply new development strategies, which were characterized by international expansion and a change in the corporate structure from a pyramid structure to a network structure. Relocation of part of the manufacturing process led to creation of a new international division of labor. International expansion and changes in the organization of the company bring with them a number of accompanying social phenomena, which this paper discusses.

MATERIAL AND METHODS

The article is based on an extensive study and analysis of empirical-analytical materials and data, particularly obtained from articles of professional economists, sociologists, political scientists and other scholars who are devoted to the topic of economic globalization and flexibilization of work. The paper performs through the comprehensive study of material facts and document analysis deductive and inductive procedures, methods of analysis and synthesis in the formulation and summarization of basic findings. The methodological techniques proceed from the qualitative research.

RESULTS AND DISCUSSION

International Expansion and its Social Consequences

In consequence of introducing new technological methods of decreasing costs, a new international division of labor is being created. Industrial production that has concentrated in modern countries since the start of the Industrial Revolution began to spread out to countries on the global periphery, mainly to newly industrialized countries of South America and South and Southeast Asia. The managing function, research and development however remained in the original core territories of the developed world (Sýkora, 2000). Amongst the new strategies of decreasing production and overhead costs are mainly processes of outsourcing, offshoring and strengthening the meaning of supplier and sub-contractor chains. The technology of outsourcing means securing partial tasks or services at less expensive, mostly smaller suppliers (e.g. a German company fires their German accountant and hires one in India). The most radical technology of decreasing costs is direct relocation of part of its production, mainly entire factories or company headquarters, to a cheaper and often less regulated country. This does not just concern a developing country, but also a tax haven. This is the process of offshoring. An offshore company is such company that implements much of its business outside the country where it is legally registered. Thanks to globalization, companies can choose a registered seat with minimum taxation. The tax havens cause losses in tax revenue, which leads to limitation of public expenditures and to shifting of the tax burden from companies to citizens (Gravelle, 2013).

The mentioned strategies mean lower expenditures for employee wages, minimum or non-existent payments to social security and health insurance, asymmetric work contracts and minimum employment law protection of employees. The nonexistence of environmental legislation then enables use of environmentally unfriendly practices. Supplier chains represent the royal discipline of the global economy. They represent the bridges between manufacturers, sales agents and customers, and large companies make much use of the network of suppliers and sub-contractors, because selling products and yet not owning any factory is advantageous to the company, and not just financially. By contracting out work to suppliers, liability for timely elaboration and quality are also transferred to them. Sub-contractors must resolve concerns with acquiring a sufficient number of employees, with their wage assessment and their possible termination during times of little work – instability of the global economy appears just in the supplier elements of the chain. Along with the submitted work, subcontractors also take on all risks affiliated with its performance, including perhaps the most poignant risk, which is that if they do not fulfill strict requirements of their customers within determined deadlines, they will lose profit and potentially further contracts as well.

The technical information revolution played a key role in international expansion, which enabled trading independently of place and time, and enabled flexible solutions of individual multinational corporations (MNCs) and administering their branches around the world. Through modern information technologies were the network relations raised to the qualitatively new, historically unprecedented level (Castells, 2001). The exchange of information, ideas and thoughts is then compared to the glue of transnational networks (Slaughter, 2004).

The approach of supranational corporations means irreversible shifts of domestic economics towards global incorporation. Economic prosperity of states is evermore influenced by the shifts on financial markets and a series of external circumstances, which lie however outside the control of national governments. Speculators on world markets influence the lives of millions of people. Financial capital is superior to production capital, which also enhances its global mobility. Multinational corporations represent a new type of power, emancipated from the influence of governments, which however strongly formulates their decisions. That is because geographic flexibility enables corporations to move part of their production at any time to another country offering conditions that are more advantageous. Countries thus complete in attracting large corporations and in providing the most advantageous investment and tax conditions. In the “race to the bottom” amongst themselves, countries compete for the favor of foreign investors by backing down from the requirements by modifying laws and by relaxing regulations to the benefit of corporations. They build industrial zones and infrastructure at their own costs and to the detriment of the interest of citizens. Often corporations can abuse this to blackmail nations and to interfere in their internal affairs. (Hertz, 2003; Klein, 2002). Corporations are also frequently accused of corruption, especially of providing kickbacks to win state-awarded contracts and gain the needed permits and licenses, of bribes to state officials, of banned forms of lobbying or of cooperation with undemocratic governments.

Another criticism regards their failure to uphold employment law and environmental standards. A cheap labor force is thus often bought by a lack of protection of workers, child or slave labor. The company reduces costs by using environmentally unsound, of course cheaper production processes and procedures, especially if they are expanding into a country with weak environmental legislation. Other important social consequence is taking away the work offer to places of operation of corporations. With the advancement of multinational corporations, small and medium-sized enterprises are losing their ability to compete, or they have serious problems staying afloat on the market. Structural unemployment is the consequence of the discord between demand on the regional or local labor market and the skills of workers. The unemployed can be disqualified for lack of knowledge, but also because of costs of commuting and moving to regions with an adequate labor market. The companies often only prefer contracts for a definite period, preventing the existence and functioning of labor unions, and employees maintain distinctly asymmetric relationships. Such work assignment then causes significant uncertainty over work and increases the competitive struggle between individuals. Technological innovations also increase unemployment. Long-term unemployment strongly threatens self-assertion on the market, and can even lead to undermining the social status and identity of the person in the company, explosions of dissatisfaction, to violence and pathological phenomena or even extremism. If an individualized and isolated individual is excluded from the labor market, he is consequently excluded from other social circles and from the life of civic society, and his political participation is disrupted (Suša, 2006). Along with privatization of public services and limiting the social network, the individual is fully exposed with no protection to market influences.

Network Structure of Large Firms

The manager philosophy depicts the application of network relationships as a hyper-modern arrangement, where hierarchy, rigidity, orders and planning are replaced by vertical integration, resourcefulness, initiative and a great ability to improvise. For certain functions, mainly oversight, or control and management functions at the middle level, a migration is occurring to autonomous subcontractors, and the hierarchy of control is replaced by market-type control. The company is thus relieved of the need to uphold the oversight and managing apparatus at the middle level because subcontractors of products and services themselves oversee mutual competition.Networks are thus arranged without hierarchy, where it may seem that each participant has the same right to make contacts with any other, and maintain them for the period during which the given contract is advantageous. The network has no center; participation in it makes all participants equal and gives them all an equal chance to take part as the see fit regarding voluntary cooperation. However, this does not mean at all that centers of companies enter as equals in negotiations with their subcontractors and service providers. On the contrary. There exists a strong power asymmetry between centers of large companies and the subcontractor periphery, which is actually experiencing constant growth (Keller, 2010).

Shedding Responsibility

The migration to networks has enabled employers to migrate from the sphere of labor law into the sphere of commercial law. This relieved companies of the obligation to take part in covering social risks of employees, to guarantee them a career, to tolerate the presence of labor unions, etc. Labor law mainly protects the interests of employees as the weaker party in economic terms. Through their public law interference, they determine e.g. the limits of using the labor force (maximum length of the working hours, work breaks, rest between shifts, working conditions for women, youth, etc.), it strengthens the position of the employee upon termination of an employment relationship, it protects the sphere of the employee within the regulation of liability for damage (limiting the amount of compensation for damaged caused by negligence), etc.

Due to these structural changes, mainly large organizations and multinational corporations have sharply decreased their staffing, including middle managers, and rid themselves of parts of production, transportation, storage or other capacities, for which they would have to constantly care, as they had done for their employees before cutting staff. However, the employee should not pay, in the view of theorists (in particular in the EU), for the creation of a common market and by contrast should be protected against the social consequences of such restructuring (Blanpain, Engels, 1995).

The migration of organizations to networks also means the entrance of new, as opposed to a hierarchically diverse organization, non-standard employment contracts, which do not provide the worker with security as reliably as before. This mainly concerns significant grading of remuneration in relation to grading the quality of employment contracts. The volume of full employment contracts decreased drastically, and forms of work that are not full-fledged have expanded, such as fixed-term or part-time employment. Work then becomes "permanently" temporary for a number of people.

In terms of the everyday lives of people, networks thus mean a drop in the importance of security drawn from the employment relationship. On the contrary, the importance has thus grown of sources drawn by means of networks of informal ties and interpersonal contacts. In the rapidly transforming economy, an ever-growing number of people are moving from a world with relatively stable rules to the world of networks, i.e. a world unstable and uncertain (Keller, 2009).

The American social analyst Robert Reich speaks of the transformation from an "employee company" to a "post-employee company". Employees are forming a shrinking proportion of workers, and their numbers are to continue to fall. Hiring individuals is changing in relation to individually concluded temporary agreements and contracts, thus ending the expectation of predictable incomes. People are no longer controlled by the organization, but rather by the market. Only those who can sell themselves well on the labor market have a chance at **success.** Sales of oneself places high requirements upon the life of the person, because it interferes in his personal relationships. When a personality is for sale, all relationships are actually commercial agreements. It once was true that the worst think one could say about somebody was that he sold himself. Today the worst thing one could say is that he is not for sale (Reich, 2003).

Flexibilization of Work and is Social Consequences

Keller sees the situation similarly to Reich when he speaks of the onset of "flexible work". He puts making work more flexible (flexibilization) into the context of development of technical innovations, thanks to which it is possible to manufacture many more products with a lower number of employees (by which unemployment also increases). Flexibilization of work then means that instead of full-fledged standard work contracts, partial and short-term contracts for limited working hours are preferred, and that the tendency is strengthening of moving from a classic employment relationship to free relations between suppliers of a certain service (Keller, 2005). The networks thus prevail in the competitive struggle over hierarchically arranged organizations by demonstrating higher efficiency. They achieve this by being able to externalize much of the costs that formal, hierarchically structured organizations keep paying in full up until now.

Networks ultimately connect not only individuals and groups, but entire regions, countries and continents. In the end, they are all interconnected and again disconnected based on how much it satisfies the central aim to which the networks are programmed. This aim is maximizing private profit (Keller, 2010).

Networks thus deeply penetrate deep-rooted patterns of behavior, change the current concept of work and career, and significantly interfere with the sphere of values, which are trust and credibility on one hand, and security and safety on the other hand. Living in a society of networks means living in a society of permanent unrest and uncertainty, and always being prepared for anything that may come out of it (Keller, 2002).

What networks gave to mobility and dynamism, they took away from certainty and security. Their spontaneity appears in the incapacity of large investors to predict e.g. just the near future, it appears through sudden fluctuations and liquidation of entire branches of the economy and many professions, through the worldwide migration of capital from production to financial speculation, promising much higher, though far less certain revenues. The dependence grows of entire economies on mobility of this speculative capital and the accompanying unprecedented economic stability accompanied by unpredictable momentary crises with a wide-ranging domino effect.

Networks are in constant motion, forming massive flows of capital, investments, but also information, technology, along with flows of media images and cultural symbols. These flows are eliminating the top institutions until now, which formed in consequence of centralization and generalization of power – the nation-state. The power of the nation-state is increasingly helpless in controlling monetary policy, when deciding on the state budget, when organizing production and trade, when collecting taxes from companies and when fulfilling promises regarding social security of its citizens, and it leads to so-called de-nationalization (Castells, 2010). Certain authors also speak of de-democratization – a process characterized by privatization of public goods and by interruption of public services, the growth in social inequalities, murky lobbing, and limitation of social and labor rights (Bělohradský, 2011).

CONCLUSION

The paper presents trougth the empirical-analytical aproach and qualitative research techniques important social consequences, bringing with them a new division of labor and a migration of companies from the pyramidal to the network structure. Thanks to these structural changes, large organizations and multinational corporations sharply decreased the number of their employees, and rid themselves of part of production, transportation, storage or other capacities, for which, much like employees before, they had to constantly provide care. These previously solid components of the company were replaced by an intricate web of suppliers and sub-contractors without definitely traceable accountability. The migration to networks enabled employers to move from the sphere of labor law to that of commercial law, which relieved companies of the obligations to take part in covering social risks of employees, to guarantee them a career, to tolerate the presence of labor unions, etc. It decreased the volume of full-fledged work contracts, and expanded a "non-full-fledged" form of work, such as employment for a fixed-term or part-time employment. Work then becomes "permanently" temporary for a number of people. The importance has thus grown of sources drawn by means of the network of informal ties and interpersonal contacts. In the rapidly changing economy, more and more people are migrating from a world with relatively stable rules to the world of the networks, i.e. a world that is both unstable and uncertain. What networks gave to mobility and dynamism, it took away from certainty and security. Dependence of entire economies is growing on migrations of speculative capital, and along with it economic instability accompanied by unpredictable momentary crises with an ensuing wide-ranging domino effect. Economic prosperity of states is evermore influenced by the shifts on financial markets and a series of external circumstances, which lie however outside the control of national governments.

Thanks to the new international division of labor, multinational corporations may fully take advantages of the benefits of the global economy. They place production in the lesser developed and poorest countries, where even the minimum labor law or environmental standards are not upheld. Child labor is no exception either. They then sell the product in the most advanced countries, i.e. countries with strong buying power. And maximization of profit assists further minimization of costs, which is achieved by setting up offshore companies and settling in a tax haven. Multinational corporations are thus the true winners of the global economy.

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