OBJECTIVES OF COMPETITIVE STRATEGY OF TRANSNATIONAL CORPORATIONS IN CONDITIONS OF GLOBALISATION

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Abstract

Growing impact of transnational corporations on national economies and their consequent drive towards current globalisation processes become increasingly clear. Big transnational corporations have large capital and substantial manufacturing and technological potential that enables them to strongly affect a variety of areas. In recent years mounting criticism of transnational corporations' investment activity is becoming increasingly conspicuous. It falls into three categories: economic, political, and social.

A serious threat to economic development of states is cited among other major negative aspects of transnational corporations' activities. Presence of a foreign investor, with strong advantages, organisational and strategic support of parent companies, threatens existence of usually much weaker domestic enterprises. Another adverse effect of transnational corporations' investment is a national economy's dependence on foreign capital, leading to control over strategic sectors.

As a result of growing criticism of big transnational corporations, the concept of corporate social accountability has arisen. It is regarded as a philosophy of business activity that can be implemented as a result of social initiatives in many areas, including environment protection, charity, increase of business transparency, human rights, industrial relations, sustainable development, science and education.

1. Introduction

Growing impact of transnational corporations on national economies and their consequent drive towards current globalization processes become increasingly clear. These entities have substantial capital, manufacturing and

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technological potential that enables them to strongly affect a variety of areas. On the one hand, resources held by transnational corporations allow their rapid and dramatic growth, on the other hand enhancing their effect on state government and intergovernmental international organizations. In addition, their operations lead to globalization of commodity and service markets, emergence of global manufacturing chains, and changes in a number of industrial sectors. Global strategies of corporations greatly determine the position of less developed countries in a new, international division of labor.

2. Theories concerning sources of competitive advantage of transnational corporations

Acquisition or maintenance of competitive advantage by transnational corporations is currently a major object of study in many scientific disciplines.

Major theories concerning sources of competitive advantage of transnational corporations include J.H. Dunning's concept of international production, based on three elements building competitive status of enterprises in world markets (Dunning 1988: 21):

- ownership advantage,
- location advantage,
- internalization advantage.

Mechanisms of transnational corporation's competitive advantage are reinforced by internationalization and globalization processes. These are not alternative theories, conversely, they are often integrated with each other. International enterprises are expected to have skills and adequate corporate structure to enjoy all kinds of competitive advantages (both comparative and strategic).

2.1. Ownership advantage of enterprises

An enterprise undertaking international operations (in any form: export, cooperation agreements or foreign direct investment) should gain and be able to maintain ownership advantage over its competitors.

The ownership advantage idea is related to a company holding tangible assets (financial and material capital – land, buildings, machinery and equipment) as well intangible assets (knowledge, innovation, know-how, qualifications and experience of staff, methods of – manufacture, management, organization, marketing, distribution, brand, culture - or implemented IT systems). Good structure of these assets may prove of benefit as well.

Historically, entrepreneurs tended to win the competitive advantage by acquiring fixed assets, while at present more attention is paid to human potential. It is this potential that can make a firm more innovative and efficient than competitors. A contemporary transnational corporation may also attempt to gain ownership advantage through cost cuts in and out of the company. Unfortunately, excessive economies may produce adverse effects, such as poorer adaptation to local market preferences or lower flexibility. A transnational corporation can also utilize the advantage of branches of an existing enterprise over newly-established enterprises (this advantage can arise from: local market expertise and access to necessary resources) and the advantage stemming from internationalization of the whole corporate system. Gaining of ownership advantage by an international company is also greatly helped by such factors as: experience of international operations, ability to use diverse economic conditions, and risk distribution, as well as the ability to combine or substitute various forms of foreign expansion.

A transnational corporation's tendency towards foreign expansion is determined by the strength of ownership advantage in relation to foreign competitors. It must be borne in mind, however, that certain elements can be strengths in one foreign market but weaknesses in another. Moreover, swift propagation of those elements in the present-day, dynamic world must be considered, too. Thus, advantages held by a company can lose their effectiveness after some time. An entrepreneur is then forced to seek more innovative methods of competing.

As the globalization process develops, two new kinds of competitive ownership advantage have recently been distinguished and included in J.H. Dunning's paradigm, namely: relational advantages and knowledge-based advantages.

'Relational advantages are readiness and ability of an enterprise to gain access to, create, use and coordinate resources and skills needed to establish beneficial links/relations and to maintain and improve their quality.' (Zaorska 2007: 176). Such assets can include relations between individuals in a business or a given firm and other entities.

Relational advantages include three components:

- primary components – generally acknowledged values like honesty, credibility and trust to others, ability to adapt to various conditions, among various people,
- secondary components – relative values like work ethics, standards of behavior, ability to cope with uncertainty, readiness to learn, responsibility and dedication to work,
- advanced components – including negotiation skills, ability to coordinate activities inside the company and with other businesses.

These relational advantages can be enhanced or exercised only in combination with other assets available to an enterprise. They are expected to support any functions which generate the company's added value. The ultimate goal of the relational advantages is to create or support the ownership advantage of an international enterprise. This is possible only where these advantages are rare, unique and difficult to imitate by competitors.

Knowledge-based advantages.

Each transnational corporation creates its unique system of tangible and intangible assets which should be appropriate to the kind of business operations in a corporation. Most important intangible assets include knowledge in the possession of an enterprise. It can be treated as one of the assets or a factor that enables use of the remaining assets.

Contemporary transnational corporations operate in a complex environment that requires application of ever more complex instruments. What has been the foundation of social development (capital, land and labor) is becoming secondary to knowledge, the cornerstone of development in the modern world. Knowledge can therefore be treated as the basis for building a unique organization and gaining of competitive advantage (Błaszczyk 2006: 209). Thus, knowledge is more and more often considered a major strategic resource.

2.2. Location advantage of countries

Location advantage is the second (to the ownership advantage) condition of J.H. Dunning's eclectic paradigm, which postulates that it is reasonable to undertake foreign operations when an enterprise fulfilling the condition of ownership advantage wishes to create or use its advantage in combination with foreign location advantages.

Location advantages are specific (including economic, political, geographic, socio-cultural, etc.) characteristics and structural conditions which make a given country attractive to foreign investors. It should be noted that advantages of a given country can prove extremely attractive at a given time to an enterprise group from a specific country and sector while being unattractive to businesses from another country and sector. Besides, interest in location advantages shown by entrepreneurs can vary in effect of economic development of the host country or different motivation for enterprise expansion[*] (Table 1).

[*] Decision to expand internationally are commonly motivated not only by access to markets or resources and materials or cheap labor but increasingly driven by the desire to reinforce

Table 1. Kinds of foreign investment as related to investor motivation

Kinds of foreign investment	***Investor motivation***
Resource seeking investment	Reduce production costs
Market seeking investment	Avoid customs barriers. Manufacture and sell in local market
Efficiency seeking investment	Expand onto foreign markets to enhance global effectiveness of all branches
Strategic – asset seeking investment	Find resources: know-how, technology, distribution channels

Source: authors' compilation based on M.A. Weresa, Inwestycje niemieckie w Polsce a handel bilateralny: substytucja czy komplementarność (German Investment in Poland and Bilateral Trade: Substitution or Complementarity), Prace i Materiały No. 240, Instytut Gospodarki Światowej, SGH, Warsaw 2004, p. 6.

Each motive for foreign expansion of transnational corporations (TNC) implies varied consequences. In the case of resource and market seeking investment, a host country can expect to experience productivity growth, higher quality standards and stimulation of economic growth. In turn, efficiency seeking investment can help restructure an economy and boost its comparative advantages, as well as reduce the cost of structural adjustments. Strategic asset seeking investment can increase internal competitiveness and result in transfer of strategic resources from the recipient to the sending country, which may adversely affect the former.

Before deciding to enter a foreign market, transnational corporations learn about characteristics and conditions of the country's economy. Market factors are analyzed, among other things. A foreign investor considers whether a market's size and capacity are sufficient for their operations; whether, given the level of competition, it is possible to derive expected results in the form of competitive advantage or high added value. Political and institutional factors, building the so-called investment climate, are of importance to a potential foreign investor too. Prospects of economic growth, legal security or low taxes can help to encourage businesses to begin operations in a specific country. Specialist sectoral clusters[1] can prove of benefit to a country. Cost factors are

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competitive advantages of TNC. This relates primarily to the possibility of developing knowledge via access to location advantages that supplement or support TNC's capacity in this respect.

[1] According to M.E. Porter's definition, a cluster is a geographical concentration of competitive companies or other entities in the same sector which, as suppliers and/or customers, have built close relations with other businesses or sectors in the region or which jointly use

undoubtedly a major consideration as transnational corporations appreciate: access to and prices of production factors, possible lower cost of transport and communications. It should be pointed out that joining integrated structures can make a country more attractive. In effect, internal legislation can be harmonized with Community law, procedures related to supply of goods to the organization's markets can be simplified or customs duties may be abolished.

2.3. Internalization advantages of enterprises

Internalization advantages available to transnational corporations have for 20 years been the key factor deciding about foreign investment commitments and ultimately the company's rollout by establishing foreign branches or joint undertakings.

'The concept of internalization advantage relates to the possibility of optimum and effective utilization of attractive resources by an enterprise within corporate structures via transnational internal flows of products and services, that is, between corporate branches and headquarters and among the particular branches of an enterprise. (Sowa 2000: 72-73)

The internalization theory is rooted in the concept of transactional costs which says that international corporations undertake foreign direct investment as they wish to avoid additional costs associated with market transactions' (Rymarczyk 2006: 112) in effect of disturbances of market functioning. Obviously, the greater the disturbances, the higher the cost of their overcoming and the more beneficial internalization of transnational enterprises.

Internalization provides TNCs with benefits resulting from dynamics of internationalization and globalization processes. Therefore, these benefits are not available to local companies that take advantage only of local resources and operate exclusively in the local market.

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specialized human resources, which allows these companies to gain advantage over competitors in the sector in many markets. Research suggests that the main factor driving TNC commitment to clusters is not relations within a sector but the potential for obtaining of valuable information, dissemination of knowledge, participation in research, inspiration for innovation, E. Bojar, *Clusters – The Concept and Types. Examples of Clusters in Poland*, [In:] E. Bojar, Z. Olesiński (Eds.) *The Emergence and Development of Clusters in Poland,* Difin, Warsaw 2007, pp. 11-30.

3. Investment expansion of transnational concerns worldwide

Foreign investment is a form of capital transfer that can be understood as 'any movement of capital abroad noted in the balance of payments. Enterprises, households, commercial banks, budgets of various levels, and central banks can participate in such capital turnover (Budnikowski 2003: 137).

International capital transfers consist, on the one hand, in movements of loan capital and movements of production capital, on the other hand. Loan capital comprises internationally exchanged cash investments and various securities (most often bonds) excepting shares. Production capital occurs in the form of portfolio or direct investment.

Portfolio investment is the simplest form of capital commitment to a foreign company and refers to purchase of shares at a foreign stock exchange (or shares in a foreign company quoted at a domestic stock exchange). As a rule, this is short-term investment aimed at profiting from dividend or rising stock quotation (Nowakowski 2005: 322). This kind of investment does not involve investors in business operations in a foreign country but generates profit from holdings of foreign stock.

Growth of portfolio investment is fostered by long-term stability, as well as state of telecommunications, facilitating access to such information as prices or competitors and to stock exchanges, which provides technical facilities for share acquisition procedures.

Portfolio investment has two essential advantages:

- freedom of choice of investment target, thus, possible diversification of investment portfolio,
- relatively low operating costs.

It should also be noted that 'this kind of investment is usually undertaken by smaller capital. This is not a rule, however. There are cases of portfolio investment involving transnational corporations, though engaged mostly in development of direct investment' (Bożyk et al. 2002: 107).

Contrary to portfolio investment, foreign direct investment (FDI) consists in 'allocation of (long-term) capital in a foreign enterprise in order to gain lasting control of its operations and to obtain profit as a result (Kłosiński and Masłowski 2005: 48).

These goals can be achieved in three ways. First, by building production from scratch (greenfield investment). Second, by buying or taking over an existing company to continue its production (brownfield investment). Third, by acquisition of a controlling shareholding to manage the given enterprise. The first form, greenfield investment, is the most desirable.

Foreign direct investment can be horizontal or vertical. An investment is horizontal when a transnational corporation invests in the same line of business it pursues in its domestic country. Entities engage in such operations to gain better access to and possibility to service local or regional markets. In effect, corporate subsidiaries manufacture similar products to sell in host countries. Transnational corporations place increasing emphasis on seeking and using information, knowledge and innovation in different countries, and the associated foreign direct investment is horizontal as well.

An investment is vertical when it concerns an aspect of the investor's activity which is not primary. This investment most commonly helps access cheap resources (mainly labor) and production capacities abroad.

The differences between foreign direct investment and portfolio investment presented in Table 2 indicate that the impact on recipient countries, and transnational corporations themselves, may vary. The financial aspect is their common feature – capital flows between countries.

Table 2. Principal differences between direct investment and portfolio investment

Differentiating categories	Direct investment	Portfolio investment
Most frequent investor	Transnational corporations	Individual private capital
Aim of investment	Effective control over operation by foreign investor	No effective control over enterprise operations by foreign investor
Primary motives	The investor considers not only profits and losses but also many other factors	Favorable interest rate and low risk are principal motives
Timeframe	Transnational corporation sees the investment in terms of benefits towards maximization of long-term profit	Investor is mainly interested in shares of foreign companies earning highest profit over short term
Duration of investment	Long-term investment	Short-term investment
Assets committed by investor	Investment comprises a 'package' of assets – financial, material, technology, know-how	Purely financial investment
Speed of entering and exiting market	Both entering and leaving the market are a long-term process	Easy to enter and leave the market

Objectives of competitive strategy of transnational corporations in conditions of globalisation.

Differentiating categories	Direct investment	Portfolio investment
Stability of investment	High stability; investor interested in steady flow of revenue	Low stability; investor buys (bonds) depending on their current quotations
Extent of investor's control	Investor has smaller or greater impact on enterprise's profitability	Investors have no impact on profitability of the enterprise in which they hold shares
Possible incentives by recipient country	Complicated and costly incentive process for investors	Easy to encourage investors in the case of government stock
Public attitude in recipient country	High social awareness of the size of investment.	Low social awareness of the size of investment.

Source: The authors' own compilation based on M.A. Weresa, *Rola inwestycji zagranicznych w gospodarce (Role of Foreign Investment in Economy),* BRE Bank – CASE Volumes 2002, No. 62, p. 28.

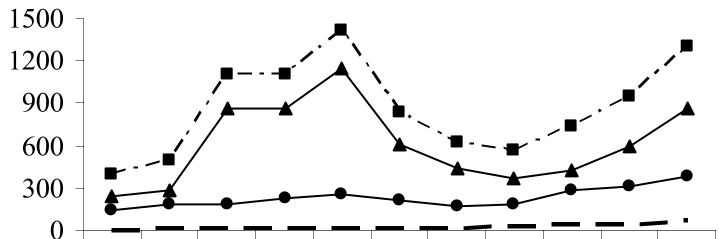
Since mid-1990s, a trend towards higher foreign direct investment and diminishing portfolio investment has been noted. This was connected to different causes of and motivations for the two kinds of private capital flows. For a direct investor, assuming much greater risk than an indirect investor, not only positive financial result is important. They also expect access to local market and significant benefits from cheaper or better production factors. Moreover, direct investment, though very costly, offers opportunities for much greater benefits in the long term than is the case for portfolio investment. The great public awareness of direct investment is an important factor as well. A host country wishing to draw as much foreign direct investment as possible must be active – by offering better conditions than other countries. All this contributes to improved competitiveness of both host economies and transnational corporations. Due to the above, foreign direct investment is gaining in popularity.

4. Foreign direct investment worldwide – current trends

The continuing prosperity of the global economy and the resulting high profits of transnational corporations help foreign investment. In 2006, flows of direct investment worldwide totaled USD 1 306 bn (Figure A), that is, much more than in the preceding years. In addition, 2006 was the third subsequent year of growing foreign direct investment. Global FDI transfers are approaching the record level of 2000 (US$ 1411 bn). This good situation is a 'result of mergers and takeovers which took place in 2006. UNCTAD reports that in 2006, 172 transnational transactions worth over US$ 1bn each were completed. Another important factor driving FDI values was the growing involvement of private equity funds, whose value is estimated at US$ 158 bn[2].

Analysis of foreign direct investment flows in groups of countries globally points to two essential trends. First, developed countries tend to participate in FDI to an extent greater than developing countries[3], South-East Europe or CIS. Second, FDI flows to developed countries increased in the period 1996-2006 by US$ 618 bn (or 72%). FDI transfers to developing countries at the same time rose by a mere US$ 232 bn (61%). In turn, FDI into South-East Europe and CIS rocketed by as much as 91% (US$ 63), though the share of these economies in global FDI flows in 2006 reached just above 5% in quantitative terms.

Fig. 1. Global FDI flows in 1996-2006 divided into country groups (US$ bn)



	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
South-East Europa and CIS	6	12	11	10	9	12	13	24	40	41	69
Developing economies	147	191	190	228	256	212	166	179	283	314	379
Developed economies	239	287	860	860	1146	609	442	361	419	590	857
World	393	489	1099	1099	1411	833	622	564	742	946	1306

Source: The authors' own compilation based on: World Investment Report. Transnational Corporation, Extractive Industries and Development, UNCTAD, New York – Geneva 2007, pp. 3 - 5.

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2 *Bezpośrednie inwestycje zagraniczne w Polsce (wg stanu na koniec 2006 roku) (Foreign Direct Investment in Poland (as at the end of 2006),* Ministry of Economy, Department of Analysis and Prognostics, Warsaw, December 2007, p. 6.

3 Asian countries attract the greatest interest of foreign investors, with US$ 260 bn of investment transfer, with the greatest share into China – US$ 69.5 bn. Source: *Informacja na temat napływu bezpośrednich inwestycji zagranicznych do Polski w 2006 r.* (*Information on Flows of Foreign Direct Investment into Poland in 2006),* Ministry of Economy, Department of Analysis and Prognostics, Warsaw, October 2007, p. 2.

EU countries dominated among recipients of foreign direct investment in 2006 (Table 3). UNCTAD figures indicate 6 out of 10 largest beneficiaries of FDI are EU members.

Table 3. 10 largest FDI recipients in 2004-2006 (US$ bn)

Country	2004		2005		2006	
	Value	Ranking	Value	Ranking	Value	Ranking
USA	135 826	1	101 025	2	175 394	1
UK	55 963	3	193 693	1	139 543	2
France	32 560	6	81 063	3	81 076	3
Belgium	43 558	4	33 918	4	71 997	4
China	60 630	2	72 406	5	69 468	5
Canada	-364	9	28 922	6	69 041	6
Hong Kong	34 032	5	33 618	7	42 892	7
Germany	-9 195		35 867	8	42 870	8
Italy	16 185	7	19 971	9	39 159	9
Luxembourg	5 823	8	7 246	10	29 309	10

Source: The authors' own compilation based on: *World Investment Report…, pp*. 251-254.

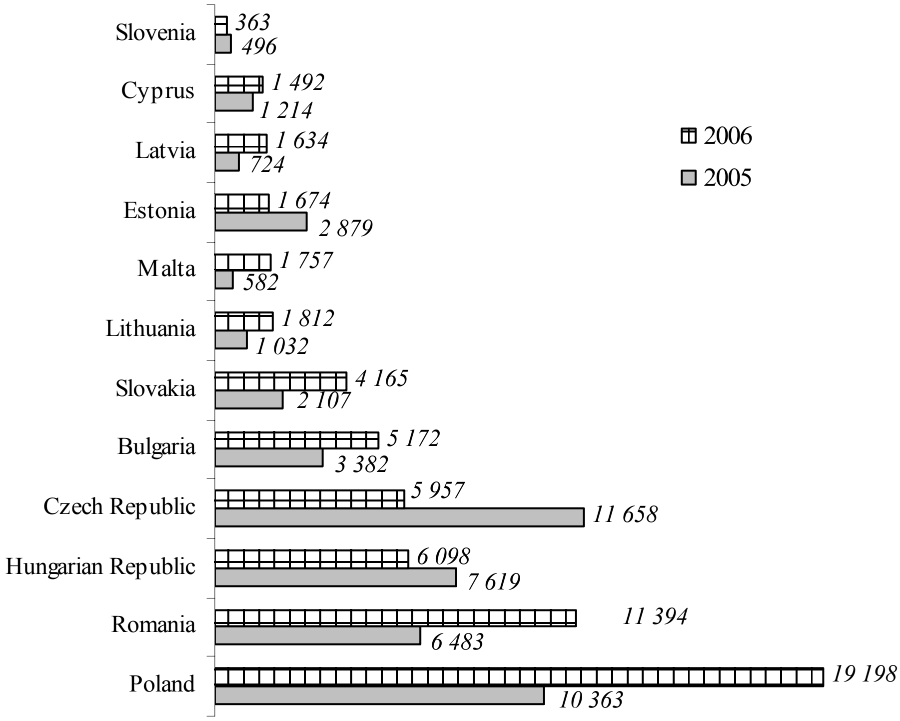
It can be noted that the United Kingdom overtook even the mighty United States in 2005. A year later, however, the U.S. returned to the first place in regard of American enterprise purchases by foreign investors.

Besides, 2006 saw a slight fall (from US$ 72 406 m in 2005 to US$ 59 468 m in 2006) of foreign direct investment into China. Nevertheless, the country still ranked 5th among the largest recipients of foreign direct investment.

Attention should also be drawn to the position of Canada, which has reently experienced a substantial increase in foreign direct investment, mostly in the extractive industry.

With respect to foreign direct investment inflows, 2006 was also advantageous to the new members of the EU. These countries received a total of US$ 60 716 m, compared to a mere US$ 49 019 m in 2005. Poland proved a clear leader (Fig. 2), receiving as much as US$ 19 198 m of foreign direct investment, i.e. nearly 32% of FDI into the new member states of the European Union. In this group, only four countries witnessed lower FDI in 2006 (compared to the preceding year). These were: Slovenia, Estonia, Hungary, and the Czech Republic, with the latter experiencing the most dramatic reduction of US$ 5 701 m (48.9%).

Fig. 2. FDI flows into the new member states of the European Union in 2005-2006 (US$ bn)



Source: The authors' own compilation based on: *World Investment Report…, p.* 29.

Highly developed countries like the United States or the EU members are not only recipients of foreign direct capital investment but also suppliers to much of the global demand for FDI. In 2006, 84% of foreign direct investment was implemented by industrialized countries[4].

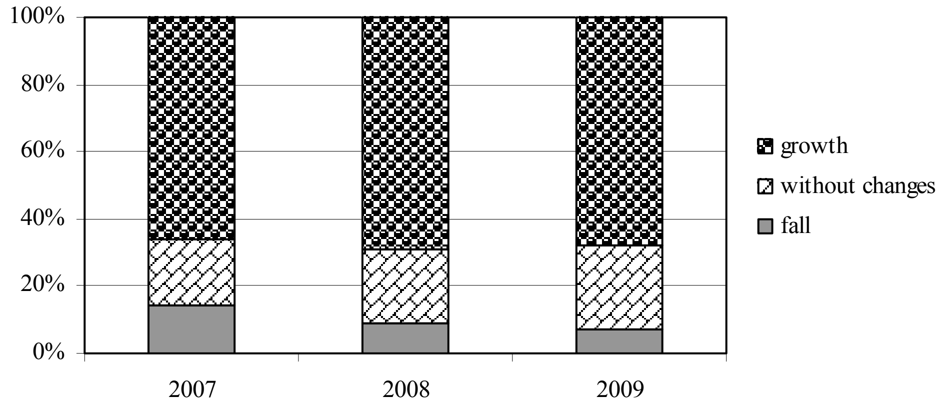
The United States were the largest single foreign investor in 2006, spending US$ 216 614 m in other countries. This amount was lower, however, than US investment in 2004 (US$ 257 967 m). Developed European countries, Hongkong (also belonging among the largest beneficiaries of FDI) and Japan (which invests more than it receives) ranked after the United States. Countries which used to be only recipients of investment increasingly spend abroad. This

4 *Informacja na temat napływu bezpośrednich inwestycji zagranicznych do Polski w 2006 r. (Information on Flows of Foreign Direct Investment into Poland in 2006),* Ministry of Economy, Department of Analysis and Prognostics, Warsaw 2007.

applies to countries like Brazil, which invested US$ 28 bn abroad and ranked 12th among the foreign investors, as well as Russia (17th, investing US$ 18 bn) and China (18th, US$ 16 bn).

There are significant opportunities for continuing growth of global foreign direct investment. According to the figures published by UNCTAD in *World Investment Report 2007. Transnational Corporation, Extractive Industries and Development* (Fig. 3), as many as 63% businesses were optimistic in this respect (relating to 2007). The forecasts are confirmed by WAIPA (*World Association of Investment Promotion Agencies*).

Fig. 3. Prospects of global FDI growth (%)



Source: The authors' compilation based on: Informacja na temat napływu bezpośrednich inwestycji zagranicznych do Polski w 2006 r. (Information on Flows of Foreign Direct Investment into Poland in 2006), p. 2.

Analysis of foreign investor involvement in the particular economic sectors clearly points to growing interest in (financial and business) services recently. The share of its sector in overall FDI in 2006 reached nearly 42% (against 37% in 2002).

5. Dilemmas of expansion of transnational corporations

Criticism has intensified of transnational corporations' investment activity lately. It falls into three categories: economic, political, and social.

Threat to economic development of states is cited among negative aspects of transnational corporations' activities. Presence of a foreign investor, with strong advantages, organizational and strategic support of parent companies, increases competition and threatens continuing existence of much weaker domestic enterprises. In effect, the host country's economy may suffer from serious problems like reduced tax receipts or heavy redundancies.

Another adverse effect of transnational corporations' investment is a national economy's dependence on foreign capital, leading to control over strategic sectors.

The so-called displacement effect is a serious threat to the host country's economy. This happens when foreign investment is a substitute of or competitive to domestic investment, directly obstructing internal investment activity.

Moreover, countries in receipt of foreign capital are incapable of effective control over transnational corporations' activities since it is very difficult to obtain information on a company investing in a domestic market. This allows corporations to apply illegal business practices that prevent development of domestic companies (e.g. building of barriers to entry into sectors, advantage of global links and agreements among transnational corporations, creation of oligopoly structures or application of transfer prices (Frejtag-Mika 2007a) in domestic and international trade).

TNCs' dominant technological position may prove a threat to national economies. It can be feared that the knowledge and engineering solutions acquired in the host country (Frejtag-Mika 2007b: 486) will be utilized not to develop domestic production but for the needs of the given corporation. On the other hand, technology and production factors imported into the host country may not correspond to current needs of the given country. First of all, engineering solutions may be only fragmentary, and their application can involve additional necessary cost (e.g. license fees). Transnational corporations are commonly accused of creating 'enclaves' of modern but export-oriented production, directly leading to dualization of the economy. This denotes split of an economy into two sectors: modern and traditional. The differentiation results from geographical concentration of foreign direct investment in a particular region to the disadvantage of other regions. Such a situation can foster existing divisions and imbalances and deprive areas most in need of foreign capital from development opportunities. Increased environment pollution is another argument mentioned against activities of transnational corporations.

The issue of financial advantages and mobility of foreign investors is another risk to a host country.

Transnational corporations are also criticized for threatening sovereignty and international status of countries. Intensive influx of foreign direct investment may lead to a national economy's dependence on foreign capital, thus threatening the given state's political stability.

Threat to economic security is also mentioned among negative political effects connected to transnational corporations' activities.

Transnational corporations are also severely criticized for creating divisions and exacerbating social problems. Negative impact of these powerful business entities can also be felt in deepening social polarization and liquidation of jobs, which increases unemployment.

Criticisms of TNC's expansion also relate to the fact that present-day societies are characterized by a high degree of commercialization, largely a result of negative influences of transnational corporations (Barber 2000; Ritzer 1997). These businesses very easily manipulate human needs and promote consumer lifestyles. Modernization brings a range of benefits – we live longer, better and healthier, often paying with lost spiritual and moral values (Anioł 2002: 268). Many authors believe that transnational corporations cause 'destruction of culture and values of the given nation through unification and universalization without respecting culture and individuality, leading to threats to national identity in extreme cases (Jarczewska-Romaniuk 2004: 194).

6. Conclusion

As a result of growing criticism of TNC, the concept of corporate social accountability has arisen (Bojar M. 2007: 11).

It is regarded as a philosophy of business activity that consists in enterprises considering and reconciling a broad range of various interests.

Transnational corporations' interest in social accountability is a consequence of ongoing progression of globalization processes and concerns both economic and social area.

The need to change corporate strategies in effect of market saturation is one of the reasons for TNCs' growing interest in the issue of social accountability. It was also connected with scandals surrounding the discovery of 'creative book-keeping' in companies considered leaders of their sectors. Trust of stakeholders, particularly shareholders, declined to such an extent that companies have to take even more care of their image and transparency of their operations to assure stability of their operations (Nakonieczna 2004: 284).

The theory of corporate social accountability should be implemented voluntarily, which implies it is not conduct required by law or absolutely ethical in the value system of the given society. Long-term commitment to choice and application – within a business – of good practices leading to improved living standards and conditions of natural environment are of utmost importance from the practical standpoint.

Corporate social accountability can be implemented as a result of social initiatives in the following areas:

- natural environment,
- company in society,
- charity,
- business transparency (ethics of business activity),
- human and worker rights,
- sustainable development,
- education and science.

In practice, each transnational corporation develops its own program of operations. The issues mentioned above demonstrate substantial impact of transnational corporations on the continuing process of globalization. Their investment activity is a source of a number of both positive and negative effects from the viewpoint of both parent and host countries (Bojar E. 2001). Transnational corporations, despite their economic power, must adapt to prevailing rules and expectations like any other players in the market game, as it appears to be the only way to lasting success.

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