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IM. STANISŁAWA STASZICA W PILE**



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# **Progress in Economic Sciences**

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**Rocznik Naukowy Instytutu Ekonomicznego  
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w Pile**

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# Development of transnational corporations in the world: opportunities and threats

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## Introduction

The number and size of TNCs have significantly increased in the second half of the past century and have caused a shift from an international economy to a globalized economy.

Transnational Corporations (TNCs) comprise parent enterprises and their foreign affiliates. A parent enterprise is defined as an enterprise that controls assets of other entities in countries other than its home country, usually by owning a certain equity capital stake. A foreign affiliate is an incorporated or unincorporated enterprise in which an investor, who is resident in another economy, owns a stake that permits a lasting interest in the management of that enterprise.

Transnational corporations evoke particular concern in relation to recent global trends because they are active in some of the most dynamic sectors of national economies, such as extractive industries, telecommunications, information technology, electronic consumer goods, footwear and apparel, transport, banking and finance, insurance, and securities trading. They bring new jobs, capital, and technology. Some corporations make real efforts to achieve international standards by improving working conditions and raising local living conditions. They certainly are capable of exerting a positive influence in fostering development [Weissbrodt and Kruger 2003, p. 901].

TNCs have been “portrayed both as an engine of growth capable of eliminating international economic inequality and as a major obstacle to development. It is seen both as a force capable of revolutionizing the productive forces in the economically backward areas of the world and as a major cause of underdevelopment through a massive drain of surplus to the advanced

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\* „1 Decembrie 1918” University of Alba Iulia.

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capitalist countries" [Jenkins 2013, p. 1]. Such issues have created an interest not only for business and trade union circles, but also for academic students, in national and international political fora, for media and even in the arts.

The aim of this paper is to emphasize the role of the TNCs in the worldwide economy, the advantages and disadvantages these corporations bring to the countries they activate in and even to the entire world and what effect they have on globalization. Authors try to describe the opportunities and threats of TNS activity, exemplifying through some well known corporations which succeeded in this competitive world.

### **The difference between transnational companies and multinational companies**

Transnational corporation may be defined as a firm which engages in direct investment in more than one country; that is, it owns and/or controls income-generating assets (factories, mines, plantations, etc.) in a number of countries, and is thus engaged in international production. TNCs are responsible for most direct foreign investment, and this can be regarded as a package containing those factors (technology of various kinds, managerial and organizational skills, etc.) that many would argue are urgently required by less-developed countries. The distinguishing features of TNCs relate to size, scope of operations, structure, organization, their view of the world economy, and their role in the development of that economy [Kirkpatrick and Nixson 1981, pp. 369–370].

Multinational corporations (MNCs) are large companies that conduct their business operations in several states. Although TNCs are commonly thought to be synonymous with MNCs, they are in fact different in several regards. The primary defining factor is that they keep their financial headquarters offshore to protect them from taxes. Thereby, they lack financial accountability to the states in which they conduct their primary operations. Ideally, MNCs would truly be global in nature; operating across borders with no single national emphasis. However, this is rarely the case. Generally, these countries are dominated by a parent company, typically in the developed world, through which they conduct the bulk of their research and to which they often repatriate profits.

It is the highly centralized nature of these corporations that is often the cause of international concern. Although they have the ability to stimulate the flow of investment, technology, profits, and more, they tend not to experience a sense of loyalty to, or responsibility for, the citizens of the countries in which their subsidiaries reside. Hence, they are often more likely to close branch plants abroad in times of economic downturn than to close plants at home.

A key concern with regards to MNCs is their mobile nature. Logically, they tend to establish subsidiaries in countries where conditions are most favorable to their business operations. Furthermore, in their negotiations with the government of the host country, their ability to pick up and leave provides them with a great deal of leverage over states dependent on the jobs they provide.

Host governments do have some bargaining power, but, particularly in developing nations, where economies are often weak, the concerns of the host government over how the MNCs operate in their country must often take a back burner to investment concerns. Therein lies the risk of exploitation. After all, some of these large corporations are more important economic actors in global affairs than are many states.

MNCs are an important vehicle for the movement of direct foreign investment. With direct foreign investment, a firm in one country creates or expands a subsidiary in another through the use of international capital flows. The distinctive feature of direct foreign investment (FDI) is that it involves not only a transfer of resources but also the acquisition of control. That is, the subsidiary does not simply have a financial obligation to the parent company; it is part of the same organizational structure [UN CTD, p. 1].

## **The effects of TNCs on the world's economy. Advantages and disadvantages**

I would like to start with this question: Who controls the new globalized world? States or Transnational Corporations (TNCs)?

The size and nature of the corporations, the jobs they offer to create, and the taxes they might pay make for an unequal relationship between TNCs and the governments of developing countries and their peoples. When a government negotiates with a TNC that is thinking of investing in its country, the negotiations are skewed in favour of the corporation. This raises questions about whether corporate power enables them to effectively subvert democracy.

TNCs tend also not to consult local people about their plans. Even the affiliate of a TNC that operates in a developing country may have little say over how its company is run. Most decisions, the outcome of which affects the behaviour of foreign affiliates, are taken by their parent companies on the basis of information and expectations known only to them. David Korten (2001) describes TNCs as “instruments of a market tyranny that is extending its reach across the planet like a cancer, colonising ever more of the planet’s living spaces, destroying livelihoods, displacing people, rendering democratic institutions impotent, and feeding on life in an insatiable quest for money”.

The case for TNCs rests on the theory of comparative advantage – that everyone gains when countries specialise and that TNCs help in their specialisation.

But the theory of comparative advantage has lost its credibility; countries have specialised economically but people have not gained. Furthermore, when TNCs invest in the economies of other countries, they do so because they believe that a profitable operation is possible. The money invested by a corporation is often not its own – it may have been borrowed from banks in developing countries, reducing the amount of money that the banks have available to lend to smaller business in their country [European Commission 2003, p. 1].

Transnational corporations are powerful enough to exert considerable influence on the agenda and rules of the World Trade Organisation (WTO). While it is corporations rather than countries that trade, the WTO is made up of countries. WTO decisions are usually in line with corporate expectations. Government ministers and their officials conduct business at WTO meetings under the gaze of representatives from major corporations who may even be part of the official delegation.

“The role that TNCs can play in a nation’s economy can make their host government a very accommodating and attentive audience; the corporations have much more access to WTO decision-makers than citizens groups and NGOs”, says Myriam Vander Stichele (1998) from the Transnational Institute.

The WTO’s Trade-related Intellectual Property Rights (TRIPs) agreement was largely written by a consortium of corporations. It gives TNCs the right to protect their patents in WTO member countries. But the consequences of this for developing countries are serious. It can hinder the development of a local drugs industry, for example, and farmers who plant crops that have been patented will have to pay royalties to the patent holder, even though farmers and their ancestors may have grown and helped to develop those crops for centuries.

WTO rules are based on the principle of non-discrimination countries are not allowed to discriminate in favour of domestic companies, to the detriment of foreign companies. Under the WTO’s Trade-Related Investment Measures (TRIMS) agreement, any support, any special treatment that governments offer to their domestic companies they have to offer to TNCs. This agreement elevates trade policy over development policy, hindering the development of local industry. The rules also mean that TNCs are under no obligation to use local labour or materials – they can shop around for the cheapest possible source [European Commission 2003, p. 2].

Corporations should be accountable to society if they expect to win the respect of society, but there is no international regulation of TNCs. Corporations often plead that they can regulate themselves, that they can be trusted. But industry self-regulation is not possible when it interferes with maximisation of profit.

“A new global body is needed to oversee the regulation of multinational business, to ensure that its activities safeguard people’s basic rights and contribute to the eradication of poverty globally”, recommends the UK-based aid

agency, Christian Aid. "The regulation of transnational business is perhaps the most pressing problem of globalization... never in human history has a comparatively small number of private corporations wielded so much power. The power of the TNCs needs to be brought under democratic control" [European Commission 2003, p. 3].

Labor, environmental, and consumer groups worldwide have long advocated for legally binding regulations for industry, in light of the growing power and mobility of multinational corporations [UN CTD, p. 2].

TNCs have been powerful enough to lead industrialisation in some countries. But there is evidence that such TNC led industrialisation in several Asian countries has been achieved at a severe cost to agriculture and rural development. Governments have tended to keep farm-gate prices low, both to save money for industrialisation and to enable workers in the new export-oriented factories to have cheap food and not demand high wages.

Of particular significance is that the presence of TNCs in poorer countries has widened internal inequalities. Almost all the studies that have been done on the effects of FDI have concluded that it has led to an uneven income distribution in developing countries. TNCs produce goods and services for those who have purchasing power; they cannot meet the basic needs of people who do not have the money to express their needs in the market place. The corporations apply their knowledge to make comparatively luxury goods and services. The nature of their products and knowledge may create biases against the poor, very few of whom are its direct customers, employees or sources of supply.

Governments of developing countries may seek to attract TNCs because the corporations can provide the capital that a country lacks to invest, for example, in activities such as manufacturing and prospecting for mineral deposits. Attracting TNCs demands that governments allocate resources for the purpose; this means there is less for other sectors of the economy, such as agriculture, education and health care. Exporting processing zones have been set up with the aim of creating jobs and increasing export earnings. Five, even ten-year tax-free arrangements have been offered to TNCs to attract them into these zones, plus the promise of cheap, non-unionised casual labour. Most of the jobs in such enterprises tend to be low-skilled, lowpaid, and geared to a particular company operation. "Advanced" technology is used on mass production lines. A worker will perform a small, specialised task of a large operation. Such tasks are likely to turn workers into little more than the arm of a machine and not necessarily equip them with skills they can use elsewhere, in domestic enterprises for example [European Commission 2003, p. 2].

Neither can TNCs be relied on to stay in a country, as they tend to be less interested in the long-term sustainable operations in any one country. They are more concerned about their own profit than with the welfare of a host country. Corporate efficiency is good for profits but it can drive small-scale



companies in developing countries out of business. A new TNC-owned factory may create jobs but at the cost of existing jobs in locally-owned factories. A net gain of jobs may not result [European Commission 2003, p. 2].

The unwillingness or inability of national governments to control TNCs in a period of deregulated global trade and investment does not bode well for people's health or the environment. TNC operations routinely expose workers and communities to an array of health and safety and ecological dangers. All too often these operations erupt into disasters such as the gas release at the Indian subsidiary of the US-based corporation Union Carbide in Bhopal. [Greer and Singh 2000].

We've stated some of the disadvantages or harms that TNCs bring to the countries and now we would like to approach the advantages those bring.

Products, production processes and management techniques of TNCs are usually close to international best practices and improving constantly; total factor productivity levels are higher compared to local firms in developing countries. The same applies to other performance criteria, such as product quality, the capability to generate technological innovations, etc. This performance gap has important implications for local SMEs. On the one hand, TNCs should be seen as sources of knowledge and technologies, some of which may be copied or otherwise transferred to SMEs; on the other hand, there is always a threat of TNCs outcompeting local companies [Altenburg 2000, p. 7].

Some other advantages that TNCs bring to the economy, more specifically to the Small-Medium Enterprises (SMEs) are mentioned below [Altenburg 2000, pp. 7-9].

*Backward linkages with suppliers:* Since they cannot produce the full range of parts, components and services in-house, they need efficient external providers of such products. Therefore, outsourcing is increasing steadily. As a result, a wellbalanced structure of enterprise sizes may emerge in which the economies of large-scale production are ideally combined with the flexibility of small enterprises. SMEs can profit from this situation in a number of ways. The large enterprises, being the customers, open up new markets for them, often facilitate a regular receipt of payment, and relieve them of development and marketing tasks. Moreover, SMEs may be given important impetuses for modernization and growth. TNC customers tend towards stable and specialization-based relations with a limited number of reliable medium-sized suppliers. Supplier relations which are only based on fluctuating demand and lower factor costs are often not compatible with rising standards as regards quality and reliability. Good manufacturing practices are gaining in importance, which in turn presupposes a skilled and highly motivated workforce along the entire value chain. This implies increasing barriers to entry for potential SME candidates, but it helps to improve working conditions and creates opportunities for technological upgrading within a select group of SME suppliers.

*Forward linkages with customers:* TNCs may develop different types of linkages with customers. The most important link is with marketing outlets. In particular TNCs which outsource the distribution of brand name products often make considerable investments in the performance of their marketing outlets, e.g. automobile dealers, gas stations, restaurant chains and travel agencies. Outsourcing these activities implies considerable advantages for the brand-name companies, mainly that they may rapidly cover extensive markets while minimizing risks and investment in distribution channels. As TNCs are keen to maintain high and homogeneous standards in their downstream activities, they often provide comprehensive training for their distributors. The SME distributor thus benefits from the use of an established brand name, a proven business concept and the transfer of knowledge from the TNC. This greatly reduces the risk of failure. The most important and rapidly expanding mechanism for downstream relationships with local SMEs is franchising.

Another type of forward linkages is with industrial buyers. Many transnational producers of machinery, equipment or intermediate goods provide assistance to their customers, which may be SMEs in developing countries. Most commonly, they send specialized personnel to train the customers workforce on how to use the acquired machinery or equipment and provide repair services; but in many cases the transfer of knowledge goes much further, providing information on international quality standards and market trends, helping to match SMEs with potential customers, etc. Such advice pays off for the TNC because machinery and intermediate goods may only be sold if the customer in turn manages to improve his own sales. Moreover, technical assistance helps to tie the customer to the provider of machinery.

*Linkages with competitors:* TNCs entering a developing country's market may induce competing local companies to accelerate improvements. Empirical research has shown that there is a statistically relevant positive correlation between the technology imports of TNCs and the local competitor's investment and output growth. Foreign investors may set new standards and create a healthy competition that stimulates innovations throughout the whole industry. On the other hand, this may, also, be considered a disadvantage, if the local competitors are lagging far behind TNC standards, Foreign Direct Investment (FDI) may drive these firms out of the market. This (as well as acquisition of local competitors) leads to oligopolistic market power and may hinder endogenous technological development.

*Linkages with technology partners:* Some TNCs initiate joint projects with indigenous SME partners. These projects may take various forms of equity or non-equity linkages, including joint ventures, licensing agreements and strategic alliances. Some host-countries require foreign investors to take on local partners in joint ventures or to license technology to local firms. In other cases, linkages with technology partners arise voluntarily, because both

parties identify complementarities and anticipate benefits from partnership: From the point of view of SMEs such linkages are mainly seen as mechanisms to gain access to new fields of knowledge and technology, while TNCs may look for indigenous partners because they provide access to local politics, institutions, and markets. Yet the fact that both partners pursue different goals often leads to conflicts: Local partners will try to gain as much access as possible to specific knowledge and technology of their foreign counterparts, while their technologically more advanced partners will usually try to avoid any leakage of specific knowledge. Therefore the distribution of benefits requires complex and continuing bargaining. An example of such strategic partnerships is: Samsung Electronics partnerships with: OCM International; CISCO Systems; Samsung strategic distributors: Accu-Tech, ADI, ANIXTER, Communications Supply Corporation (CSC), Graybar, ScanSource Security, Tri-Ed, WYNIT; HKSTP (Hong Kong Science & Technology Parks Corporation); BlackBerry; Atos SE (Societas Europaea); Global Enterprise Mobility Alliance (GEMA), etc.

*Other spillover effects* are: *Demonstration effects* occur as TNCs introduce new, often more efficient ways of doing things, thus providing showcases for innovation. By observing and copying from TNC strategies, local entrepreneurs may imitate TNC products and management techniques, develop new ways of inter-firm division of labor or gain access to non-traditional markets. This may happen as a spontaneous, even unconscious process or as a planned and systematic benchmarking exercise. *Human capital spillovers* occur whenever TNCs train personnel beyond their own needs. As TNCs usually have more advanced equipment, more up-to-date production processes and management techniques as well as higher quality standards than local companies, they place higher demands on their workforce and usually invest more in training. Even if TNC employees do not participate in training activities, they may acquire certain skills, attitudes and ideas just by working in a plant that conforms to international production standards. Moreover, experienced TNC personnel may quit their jobs in the company in order to use the acquired technical or management skills to set up independent local companies (spin-offs). Some TNCs are thus “invisible colleges” which make substantial contributions to skill formation in the host country.

The economic activities of TNCs have therefore been the subject of a series of sociological and economic research studies, which tried to assess the effects of TNC activities on the development process in countries of the Third World. However, the findings of these studies have been quite contradicting. While some studies concluded that the activities of TNCs are beneficial for developing host economies others concluded that these activities are harmful for the development process of these Third World countries. The uncertainty resulting from these contradicting findings is an obvious reason for further analysis on the subject [Bornschiefer 2004, p. 9].

## **Opportunities and threats that TNCs encounter**

We've talked about the opportunities and threats that the countries encounter due to the TNCs that activate there, but there are also opportunities and threats that TNCs encounter, even if they may not seem that large.

Customers represent a big deal to the TNCs. They may bring advantages and, also, disadvantages to them. There is a large range of different customers all around the world, depending on the country or region they come from, and mostly depending on their customs. So TNCs always have to come up with products and services that please the customers no matter the costs. This might be taken as an advantage because there are always customers to which a TNC can sell, but it can also be a disadvantage because, for obtaining the right products and giving the best services there is a need of employees who must have a certain set of skills. If the employees don't have the right skills they have to acquire them. In this aspect, TNCs have to create programs for developing and forming the employees so they can perform well in the name of those TNCs and for the customers. Thus, TNCs have to adapt to new markets.

Because of the existence of so many customers all around the world with different customs and demands TNCs can get new trends from one country to another and gain from it.

Having a large line of customers waiting for their offers TNCs produce and sell a large range of products and services. But in today's economy we can observe that the market of products and services has been overloaded. There are a lot of different offers, maybe too many. For surviving in a "jungle" of offers TNCs have to come up with innovative extraordinary ideas of products and services which have to be of exceptional quality and refined design. But the offers can come in different levels of quality and design regarding the level of customers they are sold to. So, there is always a way to survive on the market. In the end it all comes down to the capability of the TNC to survive throughout such competition.

Now comes the question if competition represents an opportunity or a threat for TNCs. Well it may be both, like in the case above regarding the customers. After all, there is a link between these. Competition is a threat as long as one TNC underestimates the market and its surroundings. But there is always something to learn from the competition. Only observing its competition closely one TNC can evolve and not subdue to the danger.

When a TNC succeeds in becoming popular on the market it gains great advantage: it can establish the trend for its kind of products and services, becoming one of the leaders on the market. But, this is sometimes a disadvantage for the customers but an opportunity for the TNC. That is because the price of the product doesn't only comprise its costs and other additions, but the brand also. Take for example Apple: their products are ones of the best quality and design and easy to handle, just as many other brands. But

because of their popularity apple affords to add to the price, because they will still sell as long as they remain the leader on the market.

Another opportunity, or rather an advantage, for TNCs, is the fact that some of them are so big and influential, that they can easily bring governments on their line of thought and needs. And this happens mostly with developing countries that are in need of TNCs, and their capital, in order to help them develop economically, socially and politically, and even, giving them the possibility of better international relations with other countries. So, the fact that some countries are more dependent on TNCs is, rather, not a good thing, but for TNCs this represents a good opportunity, because, they can influence the regulations and political parties, in those countries, in their favor.

So, as mentioned above, TNCs do depend on the environment, and they have to adapt to each new market they emerge on. Yet, taking into consideration the fact that TNCs, for being as big as they are, and having such influential power over governments in the developing countries they “conquer”, they have the advantage of being the bringers of new trends on the market, and not only. They do not only, influence the world’s economy, but also the way things work from a political and social point of view. For being international, or rather say worldwide, they can bring countries and people closer, even from opposite parts of the world, throughout the relations and partnerships they establish in different countries. Thus, they help a lot to transform “the international” into “globalization”, or “worldwide”.

“With great power comes great responsibility”. This, also, applies to TNCs. For being worldwide they have a lot of opportunities and advantages, because of the power they gathered over the years. But, this also represents great responsibility, for they have to comply to the international regulations and to the regulations of each country they perform in.

**Table 1. SWOT analysis for Transnational Corporations**

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>▪ leading innovation in a large range of fields;</li> <li>▪ brand reputation, which gives them an advantage over the local smes;</li> <li>▪ retail stores in many countries, and strategic partnerships with local smes;</li> <li>▪ strong marketing and advertising teams;</li> <li>▪ relatively rapid product development processes;</li> <li>▪ power to exert considerable influence on the agenda and rules of the wto;</li> <li>▪ leaders of industrialization in undeveloped or developing countries;</li> </ul>	<ul style="list-style-type: none"> <li>▪ often high prices for their products, not for the low class people;</li> <li>▪ being part in human rights violation conflicts;</li> <li>▪ tnc are looked upon with bad eyes, sometimes, for they are not always environment friendly;</li> <li>▪ defects of new products;</li> <li>▪ inability to provide consistency in the quality of their products.</li> </ul>

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>▪ products, production processes and management techniques usually close to international best practices and improving constantly;</li> <li>▪ trend starters.</li> </ul>	
Opportunities	Threats
<ul style="list-style-type: none"> <li>▪ the variety of new customers in emerging new markets;</li> <li>▪ developing countries need tncs to help them economically, socially and politically develop;</li> <li>▪ the standardization of products across cultures – easier to enter into new markets;</li> <li>▪ being worldwide, tnc can always orientate to the cheapest workforce area.</li> </ul>	<ul style="list-style-type: none"> <li>▪ rapid technological change;</li> <li>▪ price pressure from the competitive tncs, from the same field of operation;</li> <li>▪ new regulations for industry, in light of the growing power and mobility of multinational corporations;</li> <li>▪ the service and product market being on constant change;</li> <li>▪ high competition among tnc, as well as from the small business;</li> <li>▪ the brand's irresponsibility to run thorough quality assurance on its products.</li> </ul>

Source: own performance.

## Practical aspect of TNS activity – case study

In this point authors would like to present some examples of transnational corporations, well-known in the world and belonging to different industries. The first of this type of entity is **Samsung**, a South Korean multinational conglomerate company headquartered in Samsung Town, Seoul. It comprises numerous subsidiaries and affiliated businesses, most of them united under the Samsung brand, and is the largest South Korean chaebol (business conglomerate). It was founded in 1938 by Lee Byung-chul. It operates in 80 countries, with a total number of 489,000 employees. And it consist of 80 companies named Samsung [<http://www.samsungcnt.com/EN/cnt/index.do>].

One of the most popular beverages in the world is, without a doubt, **Coca-Cola**, a carbonated soft drink sold in stores, restaurants, and vending machines in more than 200 countries. It is produced by The Coca-Cola Company of Atlanta, Georgia, and is often referred to simply as Coke (a registered trademark of The Coca-Cola Company in the United States since March 27, 1944). Originally intended as a patent medicine when it was invented in the late 19th century by John Pemberton, Coca-Cola was bought out by businessman Asa Griggs Candler, whose marketing tactics led Coke to its dominance of the world soft-drink market throughout the 20th century.

But Coca-Cola, as many other transnational companies, can bring harm to the countries it operates in. It is now firmly tied, in the hearts and minds of many activists to the struggles against The Coca-Cola Company in Colombia or the victory against Bechtel in Cochabamba, Bolivia. It has also provided further proof about concerns surrounding the ongoing concentration and centralization of capital in the water industry globally. "It is little wonder that the struggle by the residents of Plachimada against The Coca-Cola Company, an eminently concentrated form of capital, galvanized so much support in India and elsewhere, and that their struggle has been inspirational and played a significant role in generating opposition to The Coca-Cola Company and PepsiCo in other rural communities in India facing similar threats from transnational corporations" [Ananthakrishnan Aiyer, p. 652].

Coca-Cola is undermining the public sphere by threatening public health, aggressively pursuing youth in schools as potential new customers, and by encouraging students to understand themselves principally as consumers rather than citizens [Saltman 2004, p. 157].

**McDonald's** is the world's largest chain of hamburger fast food restaurants, serving around 64 million customers daily in 119 countries. Headquartered in the United States, the corporation was founded by businessman Ray Kroc in 1955 after he purchased the rights to a small hamburger chain operated by the eponymous Richard and Maurice McDonald.

Regarding the harm that McDonald's brings on the world "DeBres (2005) states that McDonald's official company history shows that they do not modify their business dealing in order to adapt to cultures across national boundaries but instead changes local cultures so to meet their own needs. He continues by noting that McDonald's has been portrayed as "erasing the differences between this place and that place" [DeBres, 2005]. It has been realized that McDonald's customers take for granted the standardization in their menu range" [Loukakou and Membe 2012, p. 21].

**Nestlé** is a Swiss multinational food and beverage company headquartered in Vevey, Switzerland. Nestlé's products include baby food, bottled water, breakfast cereals, coffee and tea, confectionery, dairy products, ice cream, frozen food, pet foods, and snacks. Nestlé was formed in 1905 by the merger of the Anglo-Swiss Milk Company, established in 1866 by brothers George Page and Charles Page, and Farine Lactée Henri Nestlé, founded in 1866 by Henri Nestlé.

Nestlé also has been involved in a scandal regarding the harm it brings through its products. Nestle, the Swiss food conglomerate, was subject to consumer boycotts in the 1970s because of its marketing of powdered milk formula for infants in less developed countries. Free samples were distributed at maternity units, and by sales representatives dressed as quasi-medical personnel. The criticism was that third-world mothers were being persuaded that infant formula was better for their babies than breast milk. Once a mother

switches to powdered milk and stops breast feeding her baby, her production of milk ceases, and the supplier has a locked-in customer” [Boyd 2011, p. 284].

To conclude, there is no question that TNCs have grown immensely powerful in the global society. But, as we can see through the examples above, there are not only advantages behind the existence of TNCs but also disadvantages, for they bring harm to the environment and to people. In their pursuit for money and power TNCs violate some of the human rights and other laws and try to hide it from the human eye.

## Conclusions

The degree of power or influence the TNCs flaunt around the globe is unquestionable. Cloaked in the free-market ideology, TNCs have gained and exerted considerable power in the global society. The reality is that TNCs support of a free-market system is superficial; it advances their profit-oriented initiatives, while protecting them from legal liability for the public consequences. Due to this concentration of market power, TNCs have achieved and demonstrated the ability to influence the direction of political and economic policies both on a national and international level. The degree to which their power has been used in the political arena to promote the corporate agenda has been widely overlooked. In the process, TNCs’ ability to expand and generate profit has come to be perceived as necessary for economic growth. This has allowed TNCs to exploit the related notion that the most effective way to reduce poverty and meet the most essential human needs is through economic growth.

The prevailing method of creating and sustaining economic growth in today’s global environment is thought to be through the exercise of free-market principles. TNCs, on the surface, are fierce advocates of the free-market system because it contests the regulation of market activities by governments, promotes the idea of free trade and evokes a positive connotation with its professed relationship to the spread of democracy.

However, despite their appetite to turn a profit regardless of the cost, TNCs are potential instruments that can be used for the good of society. They have access to a variety of resources and advanced technology that can improve the standard of living for billions. TNCs may be better structured and more efficient than bureaucracies to handle certain issues, such as oil spills, natural disasters and the distribution of food and medicine to the poor. The problem, however, is regulating TNCs activities. TNCs’ size and wealth, ability to relocate, and infiltration of the political arena have allowed them to evade any substantial regulation. It is not too late to start holding TNCs accountable for their activities, so that the welfare of society is given preference over short term profit.



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## Abstract

Transnational corporations (TNCs) are incorporated or unincorporated enterprises comprising parent enterprises and their foreign affiliates. Transnational Corporations exert a great deal of power in the globalized world economy. Many corporations are richer and more powerful than the states that seek to regulate them. Through mergers and acquisitions corporations have been growing very rapidly and some of the largest TNCs now have annual profits exceeding the GDPs of many low and medium income countries. TNCs dominate the global economy and exert their influence over global policymaking. Worldwide companies start the trend in many domains having a big range of competitors. Trade is an important development tool. Trade between developing and industrialized countries has expanded and borrowing from rich countries to the poor areas of this world increased. The links between these differing groups of economies intensified subsequently and made these two groups increasingly dependent from each other. TNCs based their activity around this idea.

In this paper, we try to emphasize the role of the TNCs in the worldwide economy, the advantages and disadvantages these corporations bring to the countries they activate in and even to the entire world and what effect they have on globalization. Some opportunities and threats of TNS activity are presented, exemplifying through some well known corporations which succeeded in this competitive world. The authors wanted in this way to show the positive and negative aspects of their performance and give the reader the opportunity to develop the own opinion.

**Key words:** transnational corporations, role, competition, globalization, trade, advantages, disadvantages, opportunities, threats

## Rozwój korporacji transnarodowych na świecie: szanse i zagrożenia

### Streszczenie

W warunkach globalizacji gospodarki światowej coraz większą rolę zaczynają odgrywać korporacje transnarodowe (KTN), jako przedsiębiorstwa działające w wymiarze międzynarodowym i lokujące kapitał na rynkach zagranicznych. Poprzez fuzje i przejęcia tego typu jednostki rozwijają się niezmiernie szybko, osiągając czasami wyniki finansowe przekraczające wartości dochodu narodowego państw nisko lub średniorozwiniętych. Mówi się nawet, że wpływ na kształt stanowiącej obecnie polityki w większym stopniu zależy od decyzji zarządzających korporacjami aniżeli decyzji rządów. Jednym z widocznych aspektów funkcjonowania KTN jest dynamiczny rozwój handlu i transfer inwestycji zagranicznych, który zmienia strukturę bilansu płatniczego krajów uprzemysłowionych i niskorozwiniętych, uzależniając te drugie od bogatych partnerów.

Celem artykułu jest określenie roli korporacji transnarodowych w gospodarce światowej, wskazanie korzyści i niekorzyści związanych z funkcjonowaniem tego typu podmiotów,

jak również próba oceny szans i zagrożeń dla rozwoju zglobalizowanego świata w warunkach prymatu wielkich przedsiębiorstw. Praktycznym wymiarem publikacji jest zaprezentowanie działalności wybranych KTN. Autorzy chcieli w ten sposób pokazać pozytywne i negatywne aspekty ich funkcjonowania i dać czytelnikowi możliwość wyrobienia własnych poglądów.

**Słowa kluczowe:** korporacje transnarodowe, rola, konkurencja, globalizacja, handel, korzyści, niekorzyści, szanse, zagrożenia

## **Развитие транснациональных корпораций в мире: возможности и опасения**

### **Краткое содержание**

В условиях глобализации мировой экономики всё большую роль начинают играть транснациональные корпорации (ТНК), выступающие в качестве предприятий международного значения и размещающие свой капитал на внешних рынках. Благодаря объединению и подчинению себе подобного рода единиц, они развиваются очень быстрыми темпами, достигая иногда финансовых результатов, превышающих размер национального дохода низко или среднеразвитых государств. Считается даже, что влияние на процессы проводимой в настоящее время политики в большей степени зависит от решений управляющих корпорациями, чем от решений правительств.

Одним из заметных видов функционирования ТНК является динамичное развитие торговли и трансферт заграничных инвестиций, который изменяет структуру платёжного баланса индустриализированных и низко-развитых стран, что влияет на зависимость беднейших партнёров от богатых.

Целью статьи является определение роли транснациональных корпораций в мировой экономике, представление положительных и отрицательных сторон, связанных с функционированием подобного рода субъектов, а также попытка оценки возможностей и опасений для развития глобализации мира в условиях примата больших предприятий. Практическим значением публикации является представление деятельности некоторых ТНК. Авторы хотели таким образом показать положительные и отрицательные стороны их функционирования и дать читателю возможность сформулировать собственные взгляды на данную тему.

**Ключевые слова:** транснациональные корпорации, роль, конкуренция, глобализация, торговля, преимущества, недостатки, возможности, угрозы

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