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**Article**

## Social Aspects of Transnational Corporations' Activities in the New EU Member States

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**JANINA WITKOWSKA \***

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**Social Aspects of Transnational Corporations' Activities  
in the New EU Member States**

**Abstract**

*The aim of this paper is to examine main social aspects related to activities of TNCs in the new EU Member States and to answer the question whether TNCs could help solve some social problems of recipient countries or if their activities are a source of additional imbalances in the social sphere. The UNCTAD, OECD and CEIC statistics data bases are used to analyze and evaluate the scale and consequences of TNCs activities in the new EU member States. The empirical analysis is limited to four countries, i.e. the Czech Republic, Hungary, Poland and Slovakia. The research results show that TNCs can play a positive role in smoothing some social problems in host countries which are unemployment, poverty and social exclusion. TNCs create and maintain a vast portion of jobs in the new EU Member States offering higher compensation for employees than domestic firms. The tendency towards regional concentration of FDI in developed regions has an ambiguous impact on the socio-economic cohesion of the enlarged EU examined at the regional level. TNCs seem to stimulate disparities between regions of the EU and within these regions. TNCs are corporate social responsibility leaders in the new EU Member States.*

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## 1. Introduction

Transnational corporations' activities in the form of foreign direct investment (FDI) cause both economic and social consequences for host countries. While the impact of FDI on economy has already been widely analyzed, social aspects of foreign investors' activities are less recognized, even though they are of paramount importance for the sustainable development of host countries. Transnational corporations (TNCs) have an impact on some characteristics of labor markets in recipient countries, they also influence social inequalities in regions and introduce some corporate social responsibility (CSR) practices often unknown or neglected in recipient countries.

The new EU Member States are in need of capital to modernize their economies and they encourage TNCs to invest in their economies. Social issues related to the activities of TNCs are also important to them because all the new EU Member States experience social problems such as unemployment, poverty in some regions, lack of adequate sources for education and healthcare systems. These countries face serious imbalances of their national budgets and they have little prospects of solving their problems by using public sources. Moreover, they cannot use the social policy of the European Union as a remedy, as it is only additional to the national policies.

The aim of this paper is to examine main social aspects related to activities of TNCs in the new EU Member States and to answer the question whether TNCs could help solve some social problems of recipient countries or if their activities are a source of additional imbalances in the social sphere.

The more detailed tasks of the paper are as follows:

- to present theoretical issues of TNCs activities in the social sphere of recipient countries
- to define main social problems of the new EU Member States
- to show a scale of the Europeanization of the social policy in the EU and its relationship with national social policies of the Member States
- to examine the importance of TNCs for labor markets in the new EU member States
- to evaluate the role of TNCs in creating/or smoothing social inequalities between and within the regions
- to evaluate a scale and forms of TNCs involvement into corporate social responsibility (CSR) practices in the new EU Member States.

The UNCTAD and OECD statistics data bases will be used to analyze and evaluate the scale and consequences of TNCs activities in the new EU member

States. The empirical analysis will be limited to four countries, i.e. the Czech Republic, Hungary, Poland and Slovakia.

## **2. Theoretical aspects of TNCs activities in the social sphere of recipient countries**

TNCs activities in host countries bring both economic and social effects although the latter seem to be less frequently examined. Social issues related to TNCs' involvement in recipient countries are broadly understood (Meyer 2004, Jain, Vachani 2006). They embrace labor standards, functioning of institutions, environmental issues, ethical questions, poverty reduction and social inequalities.

This paper concentrates on some of these issues, i.e.:

- labor market issues
- regional social inequalities
- CSR practices as a part of business ethics.

The relationship between TNCs activities and labor market in host countries is discussed in the context of direct and indirect effects on employment and building skills in host countries (UNCTAD 1994, UNCTAD 1999). These effects depend on TNCs entry modes into host countries (greenfield investment or M&A), on a scale and branch structure of FDI, TNCs strategies and related organizational structures as well as on policies of host countries towards foreign investors. European integration processes modify, to some extent, effects of TNCs activities on labor market. This modification is related to the stages of integration processes and characteristics of TNCs (Witkowska 2001).

Regional development disparities existing in certain host countries are influenced by TNCs' activities. FDI tend to be located in relatively more developed regions of host countries because of their stronger location advantages. This is consistent with J.Dunnig's eclectic paradigm of international production (Dunnig 1977, 1979, 1988). Advanced integration processes enhance spatial concentration of economic activities while free capital and labor movements are established (Molle 1995). This leads to stronger regional social inequalities within host countries because of growing regional disparities in employment, skills and incomes. The EU socio-economic cohesion policy can only partly overcome regional differences in GDP per capita, employment rates and innovation characteristics (Molle 2007).

The literature discusses CSR practices in the context of business ethics, their relations with competitiveness of firms, costs –benefits of stakeholders,

motives standing behind and international dimensions of these practices (UNTAD 1999, UNCTAD 2001, Hopkins 2004, Porter, Kramer 2006). The involvement of TNCs in CSR is growing which is confirmed by their participation in global and regional initiatives and actions. The European Union's institutions support a participation of European enterprises in CSR practices (Green Paper 2001, COM 2002, COM 2006). European integration processes, nevertheless, don't seem to influence specificity of CSR practices.

### **3. Main social problems of the New EU Member States and attempts to solve them**

A common feature of the new EU member States are social problems that were caused by systemic transformation processes and adjustments to market economy rules. There are: unemployment and its social consequences, poverty, social exclusion, lack of adequate sources for education and healthcare systems. The EU accepted a new strategy 'Europe 2020' oriented among others on improving social cohesion of the EU. It is a daunting task because of social disparities existing between developed and less developed Member States and their regions. The EU statistical data illustrate the scale of these problems (The European Commission 2010):

- Unemployment - since 2008, has risen dramatically in many Member States, notably in Spain and the Baltic States, where average rates were around 20% by early 2010. In February 2012, the average unemployment rate in EU27 amounted to 10.2%. Three of the new EU Member States (the Czech Republic, Romania and Slovenia) accounted for the lower unemployment rate than the average. In Poland this rate was the same as the average and the other six new Member States experienced the higher unemployment rates, ranging from 11% in Hungary to 14.6% in Latvia (See Graph 1).
- Regional disparities in unemployment have also increased since 2008, although in 2000-2008 a significant decrease in unemployment rates in some regions was observed. Eight of the ten regions in which the unemployment rate decreased the fastest between 2000-2008 were located in the new Member States, i.e. in Poland, Bulgaria and Slovakia.
- Poverty and social exclusion is highly concentrated in less developed Member States and regions where up to a quarter of people are identified as being severely deprived. The share of population with an income level that puts them at risk of poverty (less than 60% of national median disposable income) also differs markedly between countries and even more between regions. For example one in four people is at risk of poverty in Romania but

only one in ten in the Czech Republic. At a regional level the differences are much wider. The list of the ten regions with the highest share of the population with an at-the-risk-of-poverty income includes three regions of the new Member States (two in Romania and one in Bulgaria). At the same time, 2008, there were six regions from the new EU Member States on the list of the ten regions with the lowest share of the population with an at-the-risk-of-poverty income.

- Life expectancy is relatively high in all the EU countries, nevertheless, differences between the regions remain relatively wide. Infant mortality, for example, is substantially higher in Romanian and Bulgarian regions, but also in some of the more remote or economically depressed regions in the EU-15.
- ‘Early-school leaving’ defined as a percentage of young people aged 18–24 with no education beyond basic schooling occurs in one in four regions. The ‘Europe 2020’ target in this field is at most 10%. It is worth noting that the ten regions with the lowest share of early school leavers in 2007-2009 were located in Poland (five in ten), the Czech Republic and Slovakia.
- The ‘Europe 2020’ target of increasing the proportion of those aged 30-34 with a tertiary education degree or equivalent to 40% has been reached in less than one in six regions. The ten regions in which the share of tertiary educated population (age 30-34) increased the fastest between 2000 and 2008 were located in the UK, Poland and Ireland.

As the analyzed countries face serious imbalances of their national budgets the possibility of solving above mentioned social problems by using public sources is strongly limited. The new EU Member States receive financial support from the European Structural Funds and the Cohesion Fund. A vast amount of these financial sources are used for economic and technical modernization, environmental improvement as well as creating human capital.

The new EU Member States cannot, however, treat the EU policies and their instruments as a remedy, because such EU policies as the social and cohesion policies are only additional to the national policies. What’s more, the Europeanization of the common social policy is not as advanced as in the case of certain economic policies. The character of EU social policy is “looser” than other EU policies and its range is limited to those fields where member states were willing to surrender certain prerogatives to the European Union level (Jovanović 2005; Witkowska, 2010, pp. 117-138). In the European integration process, there is a strong asymmetry between policies promoting market efficiency and policies promoting social security and equality (Scharpf 2002).

In this context, a question arises if it is justified to expect that TNCs activities in the new EU countries could help solve or at least smooth some social problems in these countries.

#### **4. The importance of TNCs for labor markets in the new EU Member States**

An evaluation of an impact of TNCs on labor markets in the new EU Member States encounters a serious setback because of incomplete databases. Nevertheless, accessible OECD data for 2002-2007 show that TNCs activities influenced to a large extent employment and compensation of employees in these countries before the global financial crisis.

The shares of TNCs in the national total number of employees were growing in the Czech Republic and Poland. These shares increased in the Czech Republic from 17.7% in 2002 to 33.1% in 2007 and in Poland from 16.6% to 23.3% respectively ( see the Graph 2). It means that almost one third and one quarter of jobs respectively was created or maintained by TNCs in these countries.

Data also show that in all the analyzed countries the shares of TNCs in the national total number of employees in manufacturing were increasing while in services some mixed tendencies were observed. This issue is illustrated by Graph 3 and 4.

It is worth noting that the position of TNCs in some manufacturing branches is prevailing. In all the analyzed countries there are branches in which the shares of TNCs in the overall number of employees amount to over 50%. In some branches these shares are even higher and range from:

- 73% to 84% in a motor industry (Poland and the Czech Republic respectively)
- 71% to 82% in the branch “Radio, TV and communication equipment” (Poland and Slovakia)
- 58% to 75% in the branch “Electrical machinery and electronic equipment” (Poland and Hungary).

The same branches are strongly export-oriented. For example, TNCs account for over 80% of export from these branches in the case of Poland. This implies that TNCs use the new EU Member States as an export platform for goods being motivated by their relatively cheaper labor force. Nevertheless, TNCs create and maintain a vast portion of jobs in the new EU Member States. Existence of some branches is totally dependent on foreign investors. A withdrawal of foreign investment from these countries may cause serious economic and social troubles, especially at regional and local levels where firms with foreign participation are major employers. For example, some disinvestment occurred in some regions of Slovakia in 2009-2010.

Data on compensation of employees show that TNCs' shares in the national total remuneration payable to employees in the analyzed countries were

increasing in 2002-2007. In manufacturing, they ranged from 52% to 59% in the Czech Republic, Hungary and Slovakia in 2006-2007. At the same time TNCs accounted for 37% - 51% of the national total number of employees in manufacturing. The comparison of these data allow to conclude that TNCs pay higher wages and salaries in manufacturing, in cash or in kind as well as the social contributions than domestic firms. In services, the same tendencies were observed although the discussed shares were lower, except the case of the Czech Republic. The graphs 5 and 6 illustrate this observations.

Taking into account the social problems of the new EU Member States referred above, the activities of TNCs could diminish a danger of the growing unemployment and reduce a risk of poverty in some social groups.

## **5. The role of TNCs in dealing with regional social inequalities**

The new EU Member States countries are characterized by both economic and social internal regional inequalities. The experience of these countries shows that TNCs locate their foreign direct investment in the relatively more developed regions of host countries and less in the lagging regions. This was confirmed by the data both before and during the EU membership. For example (CEIC data basis and own calculations):

- in the Czech Republic, 47% -54% of the annual FDI flows were located in the Capital City Praha region in 2000-2009
- in Hungary, about 68% of the annual FDI flows were located in Central Hungary region, 10%-11% in Western Transdanubia and 6%-8% in Central Transdanubia in 2000-2008 respectively
- in Slovakia, about 68% -74% were located in Bratislava region in 2007 - 2009.

In Poland, the capital city region (Mazowieckie) accounted for 56% of inward FDI stock in 2003 and 49% in 2009 (GUS 2004, 2010 and own calculations).

The relatively high degree of regional concentration of FDI in developed regions combined with the higher compensation of employees offered by TNCs have an ambiguous impact on the socio-economic cohesion of the enlarged EU examined at the regional level. FDI seem to stimulate disparities between regions of the EU and within these regions. It consequently makes catching up processes of lagging regions even more difficult.



## **6. TNCs involvement into corporate social responsibility (CSR) practices in the new EU Member States**

TNCs are involved into CSR practices in the new EU Member States more intensively than domestic firms. This is confirmed by the UNDP survey (UNDP 2007), data on the participation of TNCs in the *Global compact* initiative ([www.globalcompact.org.pl](http://www.globalcompact.org.pl)) and case studies. In the new EU Member States, in their earlier phase of development when the systemic transformation underwent, less attention was paid to social and environmental issues (CSR Europe 2010). Within restructuring processes, post –socialist firms got rid of some social functions, developed in the period of centrally planned economies, treating them as a burden. Although no deeper expectations were raised towards foreign investors with regard to CSR practices, they introduced them into the recipient countries following parent companies' strategies in this field. Nowadays, TNCs are CSR leaders in the new EU Member States and some domestic firms started following them.

TNCs enter into complex social relations in the new EU countries and try to shape them according to their needs (Witkowska 2011, pp.515-528). This allows TNCs to avoid social conflicts that might threaten their interests. Furthermore, TNCs use social relations management as an instrument of increasing company competitiveness. For the new EU Member States, the involvement of TNCs in social issues is beneficial as well. First of all, they diminish a deficit of decent work in these countries. Then, through sponsoring and patronage, they have participation in financing of some events and actions in the cultural or educational sphere that could not be financed from national or local budgets because of a shortage of sources.

## **7. Conclusions**

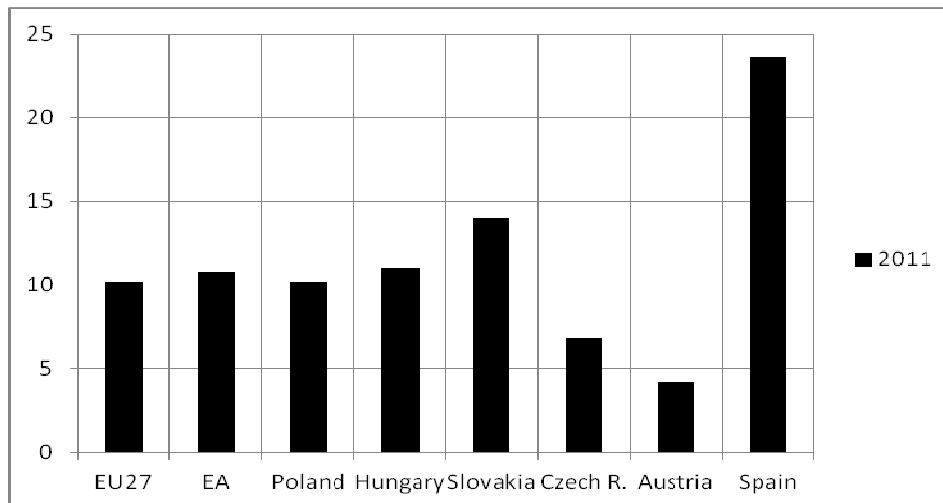
1. Theoretically, TNCs can play a positive role in smoothing some social problems in host countries which are unemployment, poverty and social exclusion. European integration processes can modify only to some extent an impact of TNCs on labor market and regional disparities.
2. TNCs create and maintain a vast portion of jobs in the new EU Member States offering higher compensation for employees than domestic firms. In some branches, TNCs are dominant as employers.
3. The high involvement of TNCs in export from some analyzed countries imply that they are treated as an export platform. Relatively higher

compensation for employees does not constitute a barrier to strongly export-oriented investors.

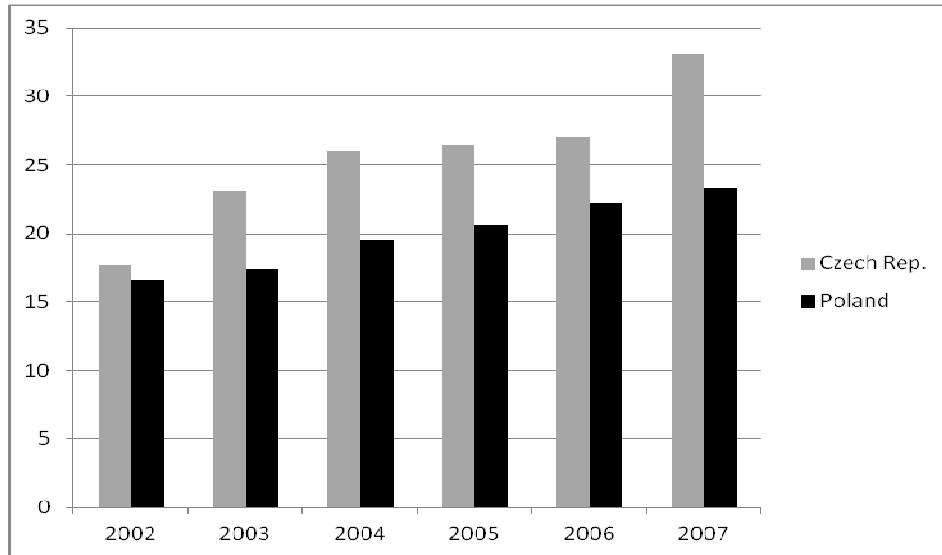
4. The tendency towards regional concentration of FDI in developed regions has an ambiguous impact on the socio-economic cohesion of the enlarged EU examined at the regional level. TNCs seem to stimulate disparities between regions of the EU and within these regions.
5. TNCs are corporate social responsibility leaders in the new EU Member States. In the social sphere, they are strongly involved in sponsoring and patronage actions. They diminish a deficit of decent work in these countries being involved in different programmes for their workers.

## GRAPHS:

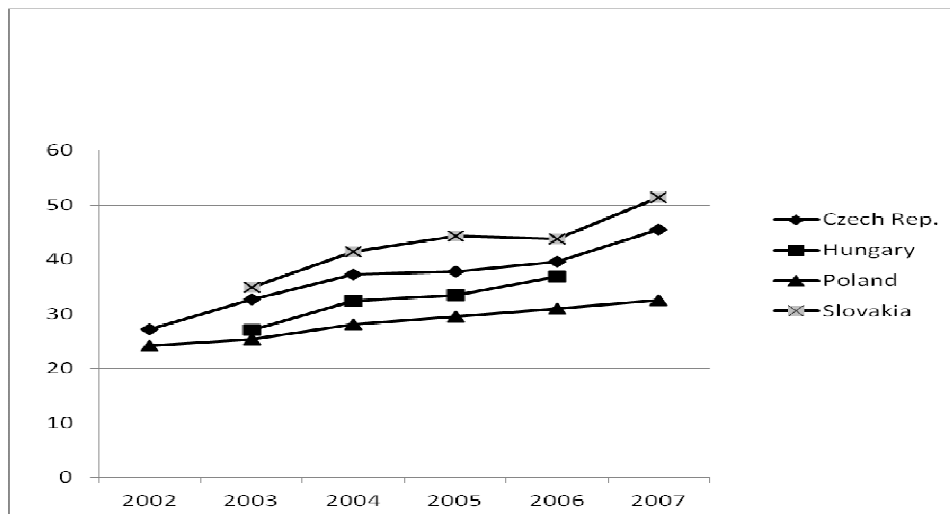
**Graph 1. Unemployment rates in the EU, EA and the selected EU Member States, 2011, %**



Source: Unemployment rates, seasonally adjusted, February 2012.png - Statistics Explained (2012/4/3)[http://epp.eurostat.ec.europa.eu/statistics\\_explained/index.php?title=File:Unemployment\\_rates,\\_seasonally\\_adjusted,\\_February\\_2012.png&filetimestamp=20120402081419](http://epp.eurostat.ec.europa.eu/statistics_explained/index.php?title=File:Unemployment_rates,_seasonally_adjusted,_February_2012.png&filetimestamp=20120402081419) and own presentation.

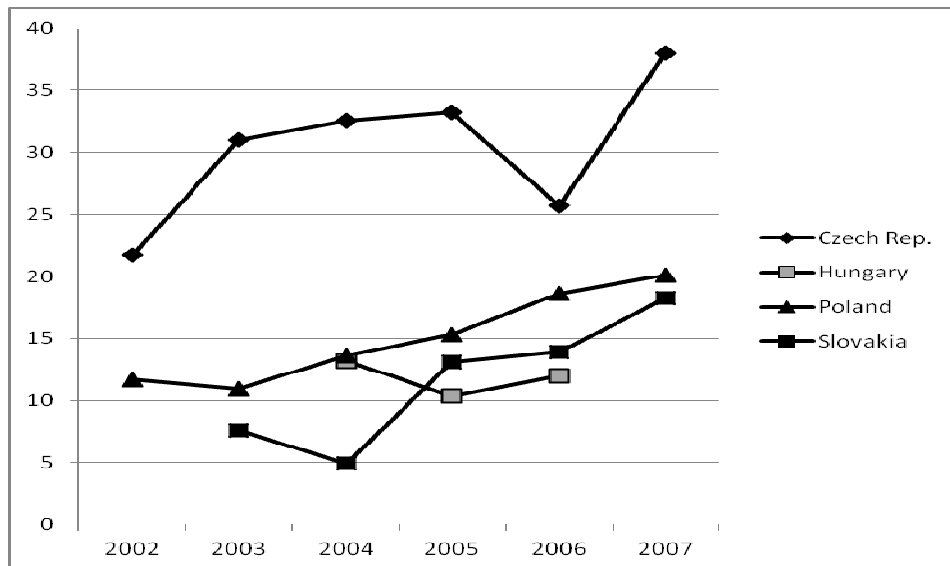
**Graph 2. The shares of TNCs in the national total number of employees, 2002- 2007, %**

Source: OECD database.

**Graph 3. The shares of TNCs in the national total number of employees in manufacturing, 2002-2007, %**

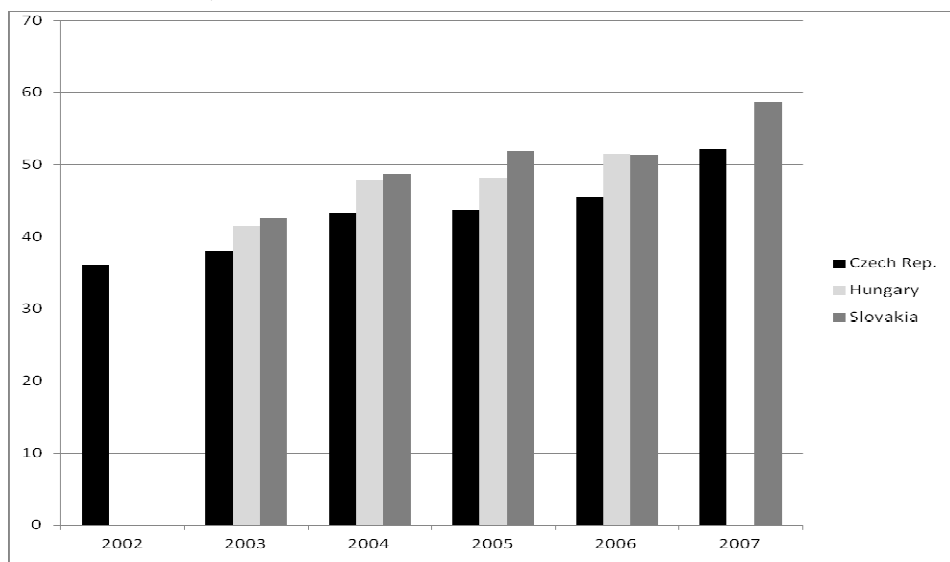
Source: OECD database.

**Graph 4. The shares of TNCs in the national total number of employees in finance, insurance, real estate, business activities, 2002- 2007, %**



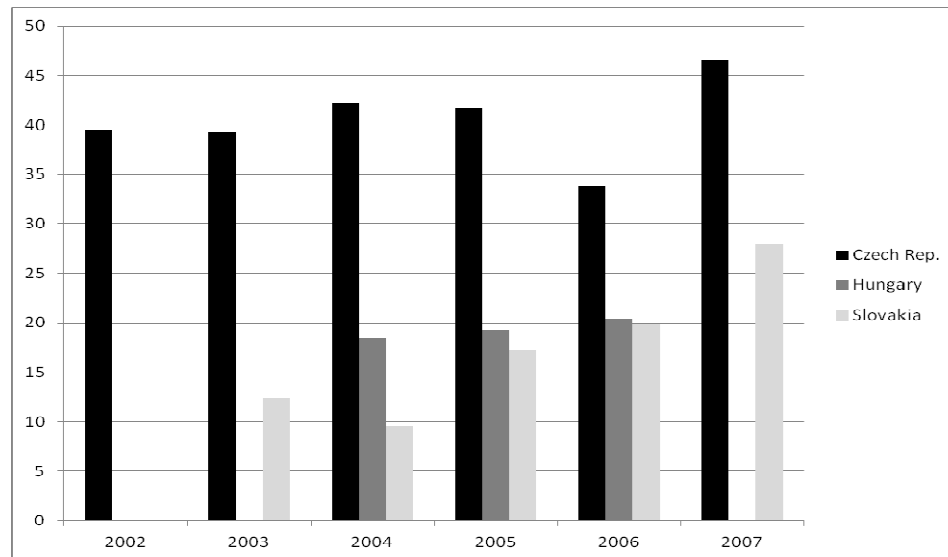
Source: OECD database.

**Graph 5. TNC's shares in the national total compensation of employees in manufacturing, 2002-2007, %**



Source: OECD database.

**Graph 6. TNC's shares in the national total compensation of employees in finance, insurance, real estate, business activities, 2002-2007, %**



Source: OECD database.

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## Streszczenie

### **SPOŁECZNE ASPEKTY DZIAŁALNOŚCI KORPORACJI TRANSNARODOWYCH W NOWYCH KRAJACH CZŁONKOWSKICH UNII EUROPEJSKIEJ**

*Celem artykułu jest zbadanie głównych społecznych aspektów związanych z działalnością korporacji transnarodowych w nowych krajach członkowskich Unii Europejskiej (UE) oraz próba odpowiedzi na pytanie, czy korporacje transnarodowe mogą pomóc złagodzić społeczne problemy występujące w krajach goszczących, czy też są źródłem dodatkowej nierównowagi w sferze społecznej. Analiza i ocena skali zaangażowania korporacji transnarodowych w nowych krajach członkowskich UE została przeprowadzona z wykorzystaniem bazy danych UNCTAD, OECD i CEIC. Analiza empiryczna obejmuje cztery kraje, tj. Czechy, Węgry, Polskę i Słowację. Wyniki badań wskazują, że korporacje transnarodowe mogą odgrywać pozytywną rolę w łagodzeniu społecznych problemów w krajach goszczących, którymi są bezrobocie, ubóstwo i społeczne wykluczenie. Korporacje transnarodowe tworzą i utrzymują stosunkowo dużą liczbę miejsc pracy w nowych krajach członkowskich UE, oferując wyższe wynagrodzenie pracownikom, niż firmy miejscowe. Ich skłonność do koncentracji bezpośrednich inwestycji zagranicznych w rozwiniętych regionach ma jednak niejednoznaczny wpływ na spójność społeczno-ekonomiczną poszerzonej UE, badanej na poziomie regionalnym. Korporacje transnarodowe wydają się stymulować nierówności na poziomie międzyregionalnym i wewnątrz regionów. Jednocześnie korporacje te są liderami społecznej odpowiedzialności w nowych krajach członkowskich UE.*