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**Transnational companies in the global business and social environment:  
Problems, Opportunities, Tendencies  
(On the example of the South Caucasus Countries)**

The work is submitted on order to obtain the academic degree  
of doctor of Business Administration

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**Annotation**

## **I. General Description of the paper**

**The urgency of the paper:** Transnational corporations and the globalization of production are the main actors in the ongoing economic processes in the world, because they affect the social and economic well-being of nation states and the world. At the same time the transnationalization and internationalization of the economy at the national and global levels strengthens the social environment of the business in the public development and hence its corporate responsibility in society.

For the countries of the South Caucasus (Georgia, Armenia and Azerbaijan) development so-called „Turning point”, the beginning of integration into international economic relations is the beginning of the 90s of the XX century - Restore independence and become a subject of the international system, including the world economy. It is noteworthy that transnational corporations have undoubtedly played an important role in this process. Moreover, the countries of the region, by creating an attractive investment environment, are trying to attract the interest of the world's largest companies in order to increase the inflow of direct foreign flows. Countries in the region are also trying to attract attention with leading positions in international rankings. It is clear that a joint analysis of the economic situation and business potential of all three countries can reveal interesting tendency and identify new scientific findings. At the same time, the attention of researchers and practitioners has increased in terms of business development in the South Caucasus, which is quite logical given the geopolitical and economic potential of the region.

Significantly increased interest in scientific research on transnationalization and issues related to it. These include transnational corporations, business and social environment, corporate social responsibility. This field occupies an important place in the works of world-

renowned researchers: Hymer S., Dunning J., Carroll A., Dahlstrom, R., Knickernocker F., Heckscher E., Olin P., Buckley P., Armstrong G., Kotler F., Galbraith G., and So on.

Recently, Georgian sciences make an important contribution to the research of these issues. Among them are: Khoperia L., Gigauri I., Manvelidze R., Katamadze D., Shengelia T., Manvelidze I., Abralava A., and et al.

Despite these papers, there are very few papers in Georgian that will comprehensively and systematically study the impact of transnationalization and internationalization of national economies on the formation of social business environment and corporate responsibility in the South Caucasus. Therefore, the results and conclusions of the research presented in this paper are relevant from both theoretical and practical points of view.

Countries of the region, where dominates investment-driven economy, and foreign direct investment, which contributes to the gross domestic product and not the gross national product growth, are trying to integrate into world processes and increase competitiveness with a high level of transnationalization. Whereas, transnational corporations are establishing their own rules in global governance and introduce innovative technologies into the country, which further develops the productivity of the host country, in the countries of the region, it is their activities that can become a force for the development of national production and business. In this sense, the activities of transnational companies not only increases the inflow of foreign direct investment flows, but also helps to improve the social environment of the business and solve social problems, reduce the level of unemployment, introduce new standards in labor, commercialize knowledge, create the necessary environment for innovative technologies, etc.

Development of business social environment, taking into account various socio-economic and environmental aspects, further strengthens the corporate social responsibility of companies in the countries of the region. It is true that mainly large transnational companies manage those processes, by which their activities effect on the natural environment and socio-economic systems, on their own employees, customers, investors, partners, locals and all stakeholders in

general. However, with a similar trend, local companies are gradually introducing socially responsible approaches as well.

It should be noted that the further development of business social responsibility in the South Caucasus countries is a prerequisite for the development of the business social environment and society in general, as the countries of the region are members of international organizations and initiatives whose important priority is social responsibility. In addition, the countries of the region are individually bound by various international agreements that regulate the different components of social responsibility at the international level. Thus, its development in the countries of the region will help to improve the image of the region at the international level and to implement obligations, under international agreements, more effectively.

Consequently, the high level of transnationalization not only develops the national economy and social environment of a particular country in the region, but also enables them to become leaders at the international level.

**The object and the subject of research.** The object of research is the subject of the international economic system - transnational corporations in the social environment and the subject of research is the characteristics of the activities of transnational corporations in the global business and social environment.

**The goal of the research:** The goal of the research is to identify the peculiarities of the activities of transnational companies in improving the social environment on the example of the South Caucasus countries.

Research objectives are:

- To study the modern global tendencies in the activities of transnational corporations and in the development of transnational capital, as well as to establish mechanisms for the selection of international strategies for the transnational corporations to enter in the South Caucasus countries market;

- To identify of modern tendencies in business development in the South Caucasus according to international indexes (Doing Business Index, Economic Freedom Index, Global Competitiveness Index, Corruption Perceptions Index, Globalization KOF Index);
- To identify the factors acting at the level of transnationalization of the South Caucasus countries and to identify the connection between them through simple linear regression;
- To determine the influence of transnational companies on the formation of the business and social environment and to separate its characteristics;
- Determining the quality of the business social environment in the South Caucasus countries, identifying and defining the factors affecting on it;
- Study the corporate social responsibility of global business in the South Caucasus countries, detection and analysis of accompanying problems, identification of existing opportunities and show tendencies.

**Theoretical and methodological basis of the research:** Specific and general scientific research methods defined on the basis of the theoretical and empirical basis in order to solve the goals and objectives of the research.

The study used a triangulation approach, which involves the combined use of different methods and theoretical approaches to study the same problem. The methodological basis is conditioned by the analysis of the peculiarities of the activities of transnational companies and the accompanying processes as well. In particular, the study used:

- Method of predicting regression analysis, namely the **Simple Linear Regression method**. By using the regression method, we determined the relationship between three tendencies in each country of the region: namely between transnationalization (based on the KOF index), foreign direct investment and doing business, from which it follows that the inflow of foreign direct investment in the South Caucasus countries determines the magnitude of transnationalism more than the leading positions in international rankings. Matching goodness, which is defined by the following values: <0.1-weak; 0.11 - 0.3 -moderate; 0.31 - 0.5 - Medium and> 0.5 / strong,

allows us to say that the regression model between transnationalization and FDI is medium or strong, and between transnationalization and international ratings is moderate or strong.

A similar method was used to determine the role of companies in improving the business and social environment of the country, in particular, the relationship between the "Index of Social Progress" and GDP in a particular country in the South Caucasus was reflected.

**Comparative analysis method** - Due to the specifics of the dissertation, it was necessary to study the tendencies and peculiarities of business development in the South Caucasus countries separately, for which international economic indexes (Doing Business Index, Economic Freedom Index, Global Competitiveness Index, Corruption Perception Index, Globalization KOF Index) were used.

Based on this method, a comparison of the countries of the South Caucasus was carried out in 2010-2019, which gave us an idea of the dynamics of business development in the countries of the region and revealed the factors affecting the development of business in each country.

Comparison of the South Caucasus countries was also carried out with such economic indicators as: Gross Domestic Product (GDP), Foreign Direct Investment (FDI) and Trade Turnover and revealed the economic-political appearance affecting on the volume of indicators.

- The dissertation also compares the countries of the South Caucasus according to the principles developed by the International Organization for Standardization, namely according to the principles developed for sustainable development. Which shows that the principle of accountability and transparency is less relevant in the countries of the region, although there is a tendency for companies to introduce them in the wake of the development of forced social responsibility. The principle of "respect for international rules of conduct" is a higher priority in Armenia and Azerbaijan, which evidenced by the number of ratification ISO conventions. The other four principles are equally important in the countries of the region.

In the area of social responsibility, the priorities and directions of internal and external social responsibility of companies were also compared. Among the social responsibility activities of the companies discussed in the paper, revealed that in internal responsible activities dominates

insurance of employee and trainings, while in external activities are charity and environmental care. According to the information on the official websites of the surveyed companies, the management of crisis situations by companies in all three countries is completely neglected, and relations with the government, in contrast to Armenia, are a relatively priority in Georgia and Azerbaijan.

The paper also uses **Multi-Criteria Decision Methods (MCDM)**, namely the Analytical Hierarchy Process (AHP) method and the COmplex PRoportional ASsessment (COPRAS) method, which not only assessed the business and social environment in the South Caucasus, but also helped stakeholders to select a partner country with different priorities. The result obtained by this innovative method will be a reference for the countries of the region to eliminate the problem that is its weakness.

**Quantitative research method** was used to study which companies in the South Caucasus were the most socially responsible and to determine the priority CSR by sector, for which we selected the 100 largest companies in each country of region and then explored the official websites of these companies.

Citizens of Georgia, Armenia and Azerbaijan were also interviewed as part of the **Quantitative research method**. The aim of the study was to study public attitudes and existing knowledge about corporate social responsibility in the South Caucasus countries. The study found that the degree of awareness and level of consciousness about corporate social responsibility in the countries of the region is not very high, although most of the respondents raised awareness about the issue during the Coronavirus World Pandemic.

Examining and evaluating existing sources and scientific literature, government acts and documents related to research issues, data on current and future eco-migration processes in the press and media will be studied using monographic research, documentary analysis, content analysis, systematic and comparative analysis methods.

The paper also uses research and statistical data from state institutions and international organizations of different countries (World Bank, National Statistics Office of Georgia, State

Statistics Committee of Azerbaijan, Statistical Service of the State of Armenia, etc.), on the basis of which the analysis of literature, documents and information was carried out.

The paper also uses various Internet resources, scientific research conducted by foreign and Georgian scientists on the activities of TNCs. Through comparing the collected materials and analysis a conclusion was drawn.

The advantage of the methods is manifested in the fact that the research is interdisciplinary in nature and relies on general scientific and specific scientific research methods. The research is based on systemic, structural-functional, institutional, social, comparative-analytical methods to solve the set goal and objectives. A similar approach has some advantages in research, as the use of different methods allows the problem to be fully explored.

**Scientific novelty of the study.** The study belongs to the category of fundamental research, which not only established the scientific level of study of the research problem, but also revealed and showed the characteristics of the activities of transnational corporations in the global business and social environment on the example of the South Caucasus countries. The paper comprehensively examines the peculiarities of the activities of transnational companies in the South Caucasus countries.

The main scientific novelty of the paper is the following:

- Based on the eclectic theory of Dunning and by following example of Georgia, we studied the process of transnationalization both at country and companies level. With a similar approach, we first explain the role of advantages (location, ownership, and internationalization) in shaping the transnationalization process in Georgia.
- Using comparative analysis methods, we studied and identified general tendencies in the economic development of the South Caucasus countries. In particular, it has been proven that as a result of successful reforms and liberal policies, the interest of TNCs in the countries of the region has increased, which has further will increase the inflow of FDI. The interest of TNCs was also conditioned by the geographical location of the region. This is evidenced by the high number of investments in the field of transport. In addition to various international indexes

(Doing Business Index, Economic Freedom Index, Global Competitiveness Index, Corruption Perceptions Index, Globalization KOF Index) and economic indicators (foreign direct investment, trade turnover, gross domestic product) were compared, which confirmed the growing global interest in establishing business relations with the countries of the region.

- In research also **shown** the impact of the number of foreign direct investments in a particular country and 2. leading positions in international ratings on the magnitude of the country's transnationalization. By defining the relationship between them, we have **confirmed** that the high level of transnationalization in Georgia and Armenia is significantly dependent on the inflow of FDI flows, while Azerbaijan is less so.
- The degree of public knowledge about corporate social responsibility (CSR) has been **studied** and the factors affecting its development have been identified in individual countries of the region.
- Advantages and disadvantages of concomitant processes of TNCs in the South Caucasus were **analyzed**;
- The reasons for taking into account the principles developed by the ISO in the field of environmental protection in a separate country of the region are **identified** and the priority areas of social responsibility (internal and external) are also determined.
- We have **defined** the factors affecting the development of corporate social responsibility, which should be taken into account by government agencies and the private sector as well.
- We have **developed** recommendations that will not only give the public and private sector representatives of the region an idea about the implementation of the activities of the TNCs, but also show the positive results of the activities of the TNCs in improving the social and economic environment of the country.

**Practical importance of the study.** Research has a great importance both from a scientific-cognitive and applied point of view. Community ideas, generalizations, conclusions will contribute to the further activation of the state and business sector to strengthen the social environment of the business and social responsibility. Existing problems (conceptual, political,

legal, and institutional) hinder the success of business social responsibility as a commitment in the future. The results of the research will help the government and business to make the right decisions, so as not to slow down the attention to the development of social business environment and social responsibility.

The results of the research will be used in the process of further elaboration of theoretical and practical issues of business social environment and business social responsibility. In particular, the practical importance of the research lies in the fact that the results of the research can be used to improve the state strategy and action plan for business promotion. Also, research materials can be used in the process of teaching methodical work in teaching such training courses as Fundamentals of Business, Global Business, Business Social Responsibility, etc. Therefore, it will have a potential impact on the development of these scientific and educational fields in terms of developing theoretical and methodological foundations for the study of business and related social issues and the creation of new knowledge. The use of research results in the process of further elaboration of theoretical and practical problems of economic policy by the government will help to improve the state strategy on business issues. The results of the research conducted using international indexes (comparative method), not only characterize the peculiarities of business development, but also allow us to assess the prospects for future business development in the countries of the region. It is also advisable to use the issues discussed in the paper as a guide material in higher education institutions.

**The structure of the work.** The paper consists of an introduction, three chapters ( eight paragraphs) and a concluding section. A list of used literature and appendices is attached as well.

## **Introduction**

### **Chapter 1. Theoretical-methodological analysis of the activities of transnational companies**

- 1.1. Global tendencies in the development of transnational corporations
- 1.2. Transnationalization of economic processes as a key factor in modern sustainable development
- 1.3. Institutional environment of social responsibility of transnational companies

### **Chapter 2. Transnationalization of production at the modern stage**

- 2.1 Transnationalization of capital and production
- 2.2 Scale and mechanisms of expansion of transnational companies
- 2.3 Research Methodology and Results of the Transnationalization Process of Georgian Enterprises

### **Chapter 3. South Caucasus Countries in Modern Transnational Investment Processes: Problems, Opportunities, Tendencies**

- 3.1 The role of transnational companies in the economic development of Georgia, Azerbaijan and Armenia
- 3.2 Social Policy of Transnational Companies and Corporate Social Responsibility in the Countries of the Region

### **Conclusions and suggestions**

### **References**

### **Appendices**

## **I. Main Part of the Dissertation**

In the **Introduction** of the work the urgency of the research topic is established, goals and objectives are set, the subject and object of the research are defined, the theoretical-methodological bases of the research are given, the state of the problem study is shown, the scientific novelty, theoretical and practical significance of the paper is presented point by point.

In the first part of the work - **Theoretical-methodological analysis of the activities of transnational companies**, the development tendencies of transnational companies (TMCs) are discussed, which led to the conclusion that transnational companies make a significant contribution to the violation of the notion of nation-states. TNCs within the framework of the global strategy easily crossed the national borders of the states and took their place in foreign countries. For one's part, their activities contributed to the outflow of production and capital, which further deepened relations between the countries. The study also revealed that the South Caucasus region, due to its geographical location, has always been the focus of TNCs, although this was also due to the specifics of TNC activities. However, it should be noted that along with the development of TNCs, the branch structure also changed, which later established a unified system of regulation of international markets. Today, TNCs are found in all sectors of economy and thus further contribute to the international division of labor and the formation of industrial complexes, although the slowdown in transnationalization processes by the global pandemic of the coronavirus may change the development tendencies of certain issues related to it.

In the same chapter: we studied the interest of TNCs in a particular country in the South Caucasus and discussed theories of transnationalization, which we divided into two groups. The first are the theories of evolution of transnational corporations, which show the patterns of the stages they and the recipient countries will go through in the course of economic evolution. These theories are: theory of the product life cycle, the modern product-cycle theory,

oligopolistic theory and the investment development path theory. The theories of the second group include: the theory of monopolistic advantages, theory of internationalization, theory of Eclectic paradigm and nation competitive advantage theory. The second group of theories pays special attention to various factors motivating transnationalization;

We have established that the process of transnationalization is going in two directions in the South Caucasus region. With a favorable geopolitical location, the region performs transit functions and is thus involved in the formation of the world economy. At the same time, the transnationalization of the region's economy has an impact on the modernization of the political space and takes into account the experience of economic transformation of leading industrialized countries. Georgia, Armenia and Azerbaijan are no longer considered as isolated and stand-alone countries, they are involved in the processes of globalization of the world economy.

The institutional environment of social responsibility of transnational companies is discussed and for which we have first reviewed the stages of development of business social responsibility, seven principles of sustainable development, 10 principles of the Global compact agreement, internal and external directions of social responsibility and then few examples of attempts to regulate corporate social responsibility through legislative leverage are brought. For example, EU policy for the development of CSR in transnational corporations, also was reviewed.

We also studied the issues related to the minimum wage in each country of the region, from which it turned out that the mentioned in Georgia is still implemented in accordance with the regulations developed in 1999 and provides for a monthly salary - 20 GEL, it is about - 7 USD. (In Armenia it is 68,000 Armenian drams - 143USD, in Azerbaijan it is 250 Azerbaijani Manat – 146USD). It can be said that the minimum wage is set by business companies. The existing small minimum wage, in turn, encourages employers to pay less, which is why wages are often equal to the subsistence level.

We have discussed the number of ratified conventions developed by the International Labor Organization (ILO) and the International Organization for Standardization (ISO) for individual countries in the region. For example, the International Labor Organization, which has drafted 190 conventions on labor relations, was joined first by Azerbaijan from the South Caucasus (May 1992), then by Armenia (November 1992) and finally by Georgia (June 1993). Currently, only 18 of the convention have been ratified by Georgia (Armenia 29 and Azerbaijan 58). The eight "fundamental" conventions adopted by the ILO Board of Directors have been ratified by the countries of the South Caucasus and address issues of fundamental principles and rights in the field of labor. №158 convention of the International Labor Organization, which sets out the rules for termination of an employment contract, has not been ratified by any of the countries of the South Caucasus. The procedure for termination of an employment contract is regulated by the Labor Code in the countries of the region. Unlike Armenia and Azerbaijan, Georgia has not ratified №131 convention, which is about setting a minimum wage.

The second chapter of the work - **Transnationalization of production at the modern stage**, presents the transnationalization of capital and production, whose international movement achieves economic growth, activation of innovation processes and a high level of competitiveness of countries. The transnationalization of capital and production not only deepens the interdependence between countries, but also in a country where there is an excess of capital and low profitability, capital flows to make more profit where it is deficient, although other factors of production (land, labor, etc.) predominate. Finally, we moved from a closed national economy to a foreign market-oriented or "open economy", where transnational corporations (TNCs) began to strengthen their economic ties and became major players in the world economy. Thus, by creating national enterprises operating in the domestic market and further expanding beyond the borders, TNCs laid the foundation for the transnationalization of production and capital. In the context of growing transnationalisation, foreign trade is becoming increasingly closely linked to foreign direct investment, while the faster growth of FDI relative to GDP indicates the deepening of international economic relations.

The same chapter examines investments from the Organization for Economic Co-operation and Development in Georgia, Armenia and Azerbaijan and presents the relationship between three indicators: transnationalization (based on the KOF index), foreign direct investment and doing business. To do this, we used a simple linear regression model, which showed that these three economic phenomena are interrelated and it can be said that transnationalism is simulated according to the foreign investment and investment environment. Matching goodness, which is defined by the following values: <0.1-weak; 0.11 - 0.3 -moderate; 0.31 - 0.5 - Medium and > 0.5 / strong, allows us to say that the regression model is strong.

The theories of transnationalization studied in the paper (in the first part of the paper) and the development trends of transnationalism in the region (in the second part of the paper) **revealed** that the motivational factors for transnationalization are mainly concentrated in Dunning's eclectic theory. The eclectic theory, otherwise known as the OLI (Ownership, Location, Internationalization) paradigm, consists of three factors: location, ownership and internationalization advantage. Based on this theory, we have tried to explain for the first time what role the various advantages play in shaping the process of transnationalization in Georgia. Summarizing the results of the research on the example of countries (Armenia and Azerbaijan) can give us a clear idea of the stages of economic development of the region. For any country, foreign direct investment is a prerequisite for economic growth, although there are not many TNCs in Georgia with the revenues of which it will be possible to reinvest in the economy. Therefore, Georgia's dependence on foreign capital is very deep. According to the theory, Georgia cannot implement FDI, just because it does not have the advantage of the owner. (I.e. has only location advantage). When Georgia has the advantage of location, it will falter in the advantage of the owner, in particular, we are dealing with the imperfection of the legislative system. It is necessary to eliminate bureaucratic and institutional barriers, to create a flexible legal framework and tax system, to introduce incentives in order to attract TNCs and, consequently, investments to the countries of the region.

According to the first advantage of the eclectic theory, Georgia, with its geographical advantages, is a natural logistics hub of the Caucasus and Central Asia, however, the legislative system developing with the second advantage of the same theory fails to ensure the development of the economy. The owner's advantage means Georgia's ability to play the role of a transit country, which will further increase the level of integration with the world economy. With the expansion of the transport corridor, more foreign investment will be attracted, so it is necessary to develop a foreign policy that will allow to send various natural resources from east to west and from the west to east finished industrial products via Georgia.

The fact that Georgia does not properly use the advantage of the owner, which is directly related to the entry of TNCs and activities in the country, also shows that the main document regulating labor relations with TNCs in Georgia is only the organic law of Georgia "Labor Code". . The absence of other regulations in Georgia, even the imposition of a minimum wage, has led a number of companies to refuse to invest in Georgia. In August, they demanded an increase in the minimum wage in the garment sector so that their contractors working in Georgia would no longer be able to exploit those employed in the textile sector.

To achieve the third advantage of the same theory, it is necessary to develop the transport system, which will make the transport corridor through Georgia competitive and will give the country the image of an efficient transport corridor.

In addition to the advantages of eclectic theory, economic indicators, positions in international rankings, business and social environment play an important role in the process of transnationalization as well, that's why we considered it appropriate in the third part of the work - **South Caucasus Countries in Modern Transnational Investment Processes: Problems, Opportunities, Tendencies:**

- **To study** the relationship between transnationalism and variables in the region (doing business, foreign direct investment), from which, on a base of the South Caucasus can be said that the inflow of foreign direct investment in the countries determines the magnitude of transnationalism rather than the leading positions in international rankings (see Table №1).

However, the high level of transnationalization may raise questions about the advantages of the geographical location of the region and point to the strong international competition between companies participating in the local market.

Table №1 : Goodness of Matching between transnationalization and variables

| Transnationalization - Foreign Direct Investment |       |          |          |        |
|--|-------|----------|----------|--------|
|  | Weak  | Medium   | Moderate | Strong |
| Georgia  |       |          |          | 0.8    |
| Armenia  |       |          | 0.38     |        |
| Azerbaijan                                       |       |          | 0.34     |        |
| Transnationalization - Doing Business            |       |          |          |        |
|  | Weak  | Medium   | Moderate | Strong |
| Georgia  |       | 0.2      |          |        |
| Armenia  |       | 0.24     |          |        |
| Azerbaijan                                       | -0.36 |          |          |        |
| Goodness of Matching                             |       |          |          |        |
|  | Weak  | Medium   | Moderate | Strong |
|  | <0.1  | 0.11-0.3 | 0.31-0.5 | >0.5   |

As can be seen from the table, the relationship between transnationalization and FDI flows is the same (moderate) in Georgia and Armenia, while in the case of Azerbaijan the relationship is relatively stronger. The goodness of matching in Georgia and Armenia is average for transnationalization and in terms of positions in the Doing Business Index, although the relationship between the two variables is weak in the case of Azerbaijan.

The data in the table indicate that despite the advanced positions in the international rankings, transnationalization is more determined by the FDI flows into the country, which is related to the activities of TNCs.

In the same part of the work we studied the data of the countries of the South Caucasus region for the last 10 years in international ratings and economic indicators and then presented the relationship between them.

Despite the fact that Georgia has always been a leader in the international rankings, FDI flows to Azerbaijan much more. Therefore, it will not be unreasonable to show the perspective that comes from the high rates of regional operations of this or that local company in the region, therefore Azerbaijan has a better chance to be dominant in the region. (See Table №2).

Table №2: Data on International Indices and International Indices in Azerbaijan

| Years | International Indices |                              |                        |                              | International Indices |                |
|-------|-----------------------|------------------------------|------------------------|------------------------------|-----------------------|----------------|
|       | Doing Business Index  | Global Competitiveness Index | Economic Freedom Index | Corruption Perceptions Index | FDI                   | Trade Turnover |
| 2010  | -                     | -                            | +                      | =                            | -                     | +              |
| 2011  | +                     | +                            | +                      | -                            | +                     | +              |
| 2012  | -                     | +                            | -                      | -                            | +                     | -              |
| 2013  | +                     | +                            | +                      | -                            | +                     | +              |
| 2014  | +                     | +                            | +                      | -                            | +                     | -              |
| 2015  | +                     | -                            | -                      | -                            | -                     | -              |
| 2016  | -                     | +                            | -                      | -                            | +                     | +              |
| 2017  | +                     | -                            | +                      | -                            | -                     | +              |
| 2018  | +                     | -                            | +                      | +                            | -                     | +              |
| 2019  | -                     | +                            | +                      | -                            | +                     | +              |

One of the main motives for attracting investment in Azerbaijan has always been and is natural resources, as evidenced by Table №2, according to which, the growth trend of economic indicators in Azerbaijan is still observed, despite the deteriorating rating in international

indices. For example, in 2016, Azerbaijan has deteriorated in 3 international rankings, but the number of investments in the country still increased, which can be related to the construction of trans-Anatolian (TANAP) and trans-Adriatic (TAP) pipelines.

Whereas when comparing separate international indices (leader Georgia) and economic indicators (leader Azerbaijan), the leading countries in the South Caucasus region do not coincide. Therefore, we considered it expedient to evaluate the business and social environment, for which we used Multi-Criteria Decision Methods (MCDM) methods:namely the Analytical Hierarchy Process (AHP) method and the COnplex PRoportional ASsessment (COPRAS) method, which not only assessed the business and social environment in the South Caucasus, where Azerbaijan emerged as a leading country in assessing the business and social environment in the region taking into account various criteria. By the same method identified useful and unfavorable factors for the stakeholder in a particular country and also identified a list of positive and negative alternatives that each country should improve.

In our case, a total of 12 criteria were developed, which were assigned a weight by the AHP method (0.135; 0.534; 0.104; 0.227), and then by the COPRAS method, the social and business environment of the countries in the region was finally assessed (see Table 3).

Table №3: Criteria used to assess the business and social environment

|   |
|---|
| $X_1$ : Annual GDP growth (average) 2009-2019         |
| $X_2$ : GDP per capita, 2019                          |
| $X_3$ : Foreign Direct Investment (Average) 2009-2019 |
| $X_4$ : Foreign Direct Investment 2019                |
| $X_5$ : Trade turnover (average) 2009-2019            |
| $X_6$ : Trade Annual Turnover 2019                    |
| $X_7$ : Doing Business Index (average) 2009-2019      |
| $X_8$ : Doing Business Rating 2019                    |
| $X_9$ : Human Development Index (average) 2010-2018   |
| $X_{10}$ : Human Development Index 2018               |
| $X_{11}$ : Social Progress Index (average) 2014-2017  |

The results of the study will be a reference for the countries of the region, to eliminate the problem that is its weakness.

Thus, in order to succeed in the region and further integrate into the world economic space, countries will automatically engage in a competitive struggle. Which requires a well-developed strategy and investment policy. For them, the main factor in the growth of integration into the world economy should be not only the development of export support strategies and thus the increase of foreign trade turnover, but also the interest of TNCs in the region and their investment. Consequently, the region must take advantage of geographical advantages, attract investors and promote new ventures aimed at creating consumer-oriented goods and services in the global market. At the same time, the countries of the region should focus on pursuing investment policies that take into account the priority areas for the development of the economy.

In today's world, companies are increasingly influencing economic, environmental and social processes, and the public is interested not only in the final results of the company's activities, but also in how the company carries out its activities. Therefore, within the framework of the paper, we conducted a quantitative study on corporate social responsibility. The aim of which was to study the public attitude towards it and the existing knowledge about the issue in the countries of the South Caucasus. In order to measure the level of public awareness and level of consciousness about corporate social responsibility and in order to obtain objective results, the study used two techniques: spontaneous response and knowledge with the help.

To measure public awareness.

Total 300 people were interviewed (100 citizens of Georgia, 100 citizens of Azerbaijan and 100 citizens of Armenia) and the main findings are as follows: The level of awareness and level of consciousness of public about corporate social responsibility in the countries of the region is not at all high. (Almost half of the respondents directly stated that they did not know the

meaning of the concept). The information in the memory of the respondents about the social responsibility of the business in general and the separate directions of its implementation is very scarce. Most of the respondents were not able to name the directions and components of social responsibility spontaneously, nor to give a specific example. However, in the case of assistance, the share of awareness of the individual components in each direction has increased significantly. This result is echoed by the fact that respondents, when assisted, recalled activities they performed under social responsibility that were not spontaneously recalled.

The insufficient quality knowledge about corporate social responsibility in the countries of the region is also evidenced by the fact that all three of them are equally considered in "social responsibility" as fulfilling the obligations imposed by law and quality production of direct business activities.

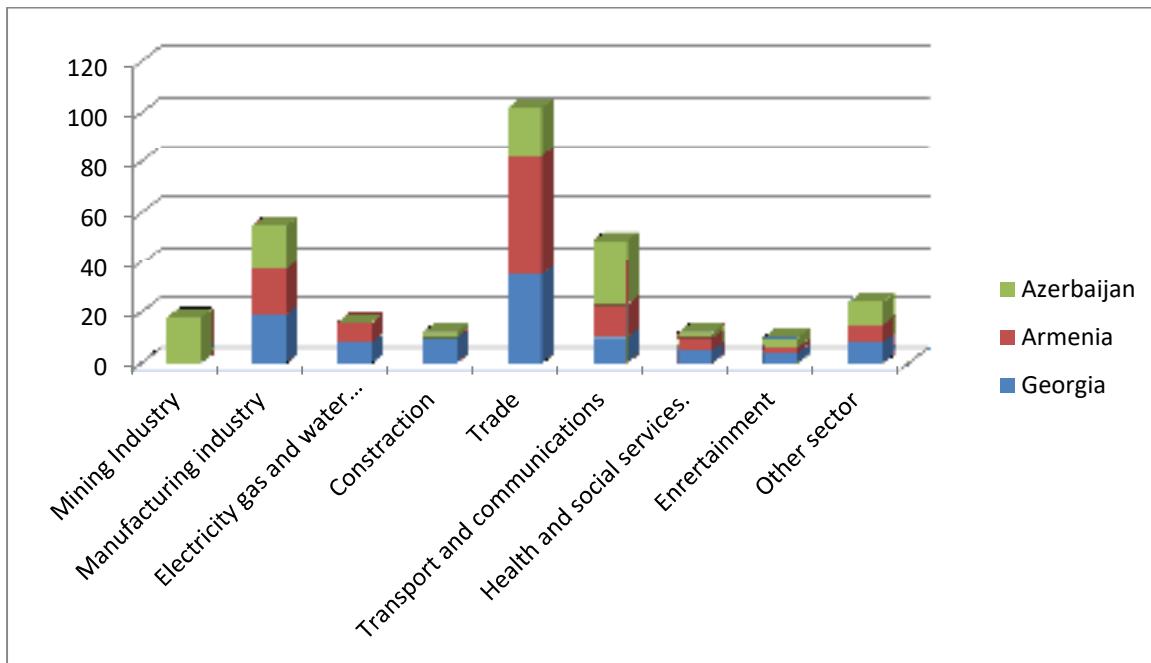
(Paying taxes, transparent business activities, providing quality products and services to customers, attracting investments, business development, etc.), As well as the implementation of various publicly beneficial projects and activities beyond the requirements of the law. Insufficient levels of awareness also indicate that the majority does not know whether there is a difference between charity and corporate social responsibility. According to the respondents, one of the most important obstacles to the development of corporate social responsibility is the lack of awareness about the forms of corporate social responsibility, as well as lack of relevant experience and knowledge in proper planning of socially responsible initiatives, proper prioritization and management.

According to the survey, respondents from all three countries surveyed did not know if their employer had done any community service, although most respondents raised awareness of corporate social responsibility in the media during the global coronavirus pandemic.

In order to study which companies in the South Caucasus were the most socially responsible companies and to determine the priority CSR by industry, we selected the 100 largest companies in each country of the region and examined the official websites of these companies.

The results showed that companies operating in the countries of the region not only do not publish information about CSR, but also the existence of websites is a big problem. Out of 100 largest companies operating in Georgia, only 79 companies (74 in Armenia; 83 in Azerbaijan) have an official website.

Figure №1: Companies operating in individual countries of the South Caucasus by activity



According to the official websites of the companies, the priority of most companies in the South Caucasus is to protect the environment and help vulnerable groups, which is often limited to sponsorship and charity.

In the case of Armenia, judging by the sectors of the companies studied, the activities of the companies operating in the "Manufacturing industry" and "trade" sector are distinguished by a high level of social responsibility.

The study also found that most Azerbaijani companies do not have CSR strategies, or if they do exist, they do not follow it, as only 10 out of 100 companies carried out CSR activities, which

is the lowest rate in the South Caucasus region. While those Azerbaijani companies are regularly involved in charitable activities other than oil companies, they do not have long-term strategies and the companies do not have an adequate understanding of the benefits of CSR.

The study of companies operating in the South Caucasus also revealed the directions and priorities of internal and external social responsibility of companies. (See Table №4)

Table №4: Internal and External priority directions of companies

| Internal directions  | External directions   |
|--|---|
| Labor safety   | Sponsorship and charity                                       |
| Stimulating labor remuneration                                     | Caring for the environment                                    |
| Additional medical and social insurance for employee               | Interact with local community groups and with the authorities |
| Human resource development training and advanced training programs | Willingness to participate in crisis situations               |
| Assisting employees in critical situations                         | Liability between consumers of goods and services             |

In the third part of the work we also revealed the peculiarities of the activities of transnational companies in improving the social environment on the example of the countries of the South Caucasus. In particular, we first compared the "Social Progress Index" in a particular country in the South Caucasus over a period of 6 years (see Figure №2) and then found out whether the increase in the Social Progress Index leads to GDP growth in the South Caucasus, for which we used the complex regression method.

The study confirmed that despite the fact that the GDP of Azerbaijan is at least 2 times higher than the GDP of Georgia, the scores of social progress in Azerbaijan in some areas are

much lower than the scores of Georgia. We have a similar picture in many other countries, which shows that GDP per capita and the "Social Progress Index" do not always move in the same direction. (See Table № 4)

Figure №2: Ranking of the South Caucasus countries according to the „Social Progress Index” 2014-2019

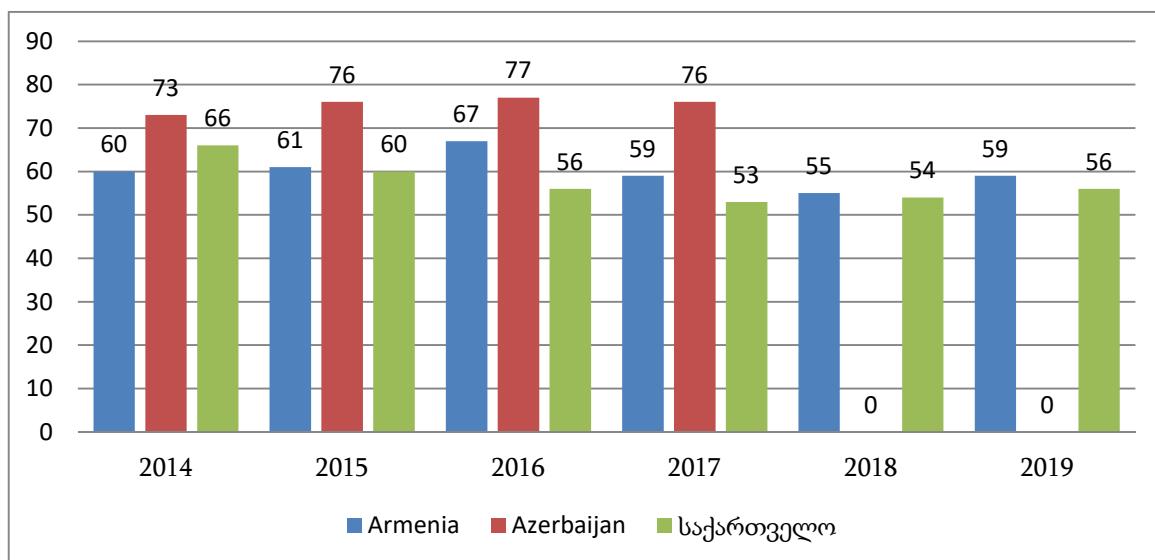


Figure №2 shows that the index in the countries of the South Caucasus region changes slightly from year to year, and according to this rating, Georgia is the leader, followed by Armenia and finally Azerbaijan. As the criteria included in the Social Progress Index do not directly affect the country's economic growth, although income growth is reflected in the social level of the country's population, the following tendency is evident that income in Georgia, in the form of FDI, are relatively low, and that the contribution of local companies to the improvement of the social level is due to them.

The relationship between social progress and GDP looks like this

Table №4: Regression analysis between social progress and GDP

| Variables  | R2    | R     | R-Square | F-statistics | P-value |
|------------|-------|-------|----------|--------------|---------|
| Georgia    | 0.714 | 0.845 | 0.570    | 4.982        | 0.52    |
| Armenia    | 0.398 | 0.098 | 0.631    | 1.327        | 0.368   |
| Azerbaijan | 0.444 | 0.666 | 0.166    | 1.60         | 0.333   |

As can be seen from the table, the relationship between the two variables is positive in all three cases, although the "goodness of relevance" is particularly large in the case of Georgia, which means that an increase in social progress by one unit leads to a 0.7 unit increase in GDP.

The examples discussed have led us to the conclusion that the authorities of the South Caucasus countries have not developed sufficient leverage, which ensures compliance with the minimum social and environmental standards set by law. Despite that CSR is a voluntary policy companies in the countries of the region should move from voluntary starting points to higher standards in order to have a positive impact on the integration of countries into international structures.

It has been proven that there is a problem of practical implementation of internationally recognized obligations in the region. Legislation in the South Caucasus countries often reflects the principles established by international conventions in the legislation, however, the mechanisms of their implementation are inadequate and they are generally characterized by the tendency of developing countries, where the involvement of the government in ensuring the development of CSR programs is minimal. None of the official government documents of the countries of the region contains a national strategy for sustainable development, which will facilitate the widespread introduction of CSR in the companies of the countries.

The paper analyzes that the governments of the region are not among the states that have formally adhered to the guidelines of the Organization for Economic Co-operation and Development (OECD). The governments of the countries of the region have not committed themselves to its introduction and promotion. At the same time, the role of trade unions will be weakened, which should be the driving force of companies in terms of responsible behaviors.

It is important to note the efforts of the governments of the countries in the region to develop business incentives. In particular, we are talking about non-financial incentives, which include the appreciation and encouragement of responsible companies in the form of competitions and awards.

Not surprisingly, the further development of CSR in the South Caucasus is a precondition for deepening international relations. The countries of the region are members of such international organizations and initiatives whose important priority is the CSR. The countries of the region are individually bound by many other international agreements that regulate different component of the CSR at the international level. Thus, the development of CSR in the countries of the region will help to improve the image of the region in the world and will give a chance to implement of obligations under international agreements more effectively.

## Conclusions and Suggestions

Based on the theoretical and practical research conducted within the dissertation, it is possible to focus specifically on the following key issues. As a result of research:

1. **It has been proven** that one of the reasons for the transnationalization of global business is the institutionalization of its activities at the regional and local levels, which naturally leads to its confrontation with the local reality, which is manifested in various conflicts of interest, which requires adjustment to this reality. This factor has played an important role in the formation of such phenomena as the social environment of the business and the social responsibility of the business.

2. **It is shown** that the following indices can be used to optimally assess business development trends and the current situation in the South Caucasus countries - Georgia, Armenia and Azerbaijan: Economic Globalization Index, Global Competitiveness Index, Corruption Perceptions Index, Economic Freedom Index, Doing Business Index and by establishing a link between the above international rating data and economic indicators (foreign direct investment and trade turnover) it is possible to partially reflect the role of TCNs in the formation of transnationalization and business development in the South Caucasus countries.

3. **It is revealed** that 1. According to the "Index of Economic Freedom", Georgia in 2010-2019 belonged to the group of "mostly free" countries, Azerbaijan to the group of "moderately free" countries and only once in the last 10 years has Armenia recorded the highest score (70.3

points) and moved from the group of "moderately free" countries to the group of "mostly free" countries. 2. Georgia is a leader according to the Corruption Perceptions Index, followed by Armenia and then Azerbaijan. According to the study period (2010-2019), Georgia is among the least corrupt countries, while Armenia and Azerbaijan are among the most corrupt countries. 3. According to the Global Competitiveness Index, Azerbaijan leads, followed by Georgia and then Armenia, and 4. Georgia is the leader in the Doing Business Index, followed by Armenia and Azerbaijan. The positions held in these international rankings give an idea of the liberal market policy in the country, which is one of the important factors for transnational corporations.

4. **It is revealed** that according to any index, Armenia did not have a leading position, which indicates that he has much more work to do in order to be able to hold better positions and improve the investment environment. This is partly due to the significant influence of Russian state-owned companies in the strategic sectors of the Armenian economy. With a similar approach, Armenia becomes dependent on Russia, which will further hinder the entry of other TNCs into the country and thus wont ensure the country's competitiveness.

5. **It is noted** in improving the business environment, beside the role of transnationalisation and TNCs, the impact of natural resources is also important. This is confirmed by the fact that Azerbaijan, despite the deterioration of data in international rankings, still maintains a positive trend in the inflow of foreign flows and foreign trade balance.

6. **It is substantiated** that Georgia and Armenia have a relatively strong relationship between the leading positions in the international rankings and direct foreign flows than Azerbaijan. At the same time, it was revealed that the dynamics of changes in 10 years of international rating data and economic indicators in Georgia and Armenia were moving in basically the same direction.

7. **It is proven** that Georgia is more dependent on maintaining positive economic tendencies with advanced positions than Armenia. In particular, out of 10 cases (10-year statistics), Armenia needs an improved position in at least 2 and Georgia in at least 3 rating data, in order to maintain a positive tendency at least in one economic indicator.

8. **It is shown** that in the South Caucasus countries - Georgia, Armenia and Azerbaijan, a simple linear regression method can be used to determine the factors influencing the formation of transnationalization.

9. **It has been** proven that the inflow of foreign direct investment in the countries of the South Caucasus determines the magnitude of transnationalism more than the leading positions in international rankings. This is confirmed by the sharply lagging positions of Azerbaijan in the international rankings in the countries of the region with relatively higher FDI flows.

10. **It has been proven** (by using the regression method) that the inflow of foreign direct investment does not always involve issues related to an attractive investment environment. But, along with the right economic policy, the inflow of investment is also conditioned by the availability of resources. In particular, the deteriorating positions in the international rankings of Azerbaijan, the economic indicators are still in a positive trend carries, due to the availability of natural resources.

11. **It has been proven** (by using the regression method) that the inflow of fewer FDI flows into Georgia and Armenia compared to Azerbaijan, despite improved international ratings, is partly due to scarce natural resources; That is why we consider it necessary to transnationalize Georgia and Armenia according to the footsteps of the Dunning's eclectic theory. Thus, Dunning's theory asserts the dependence of investment growth in the country on three advantages (ownership, location, internationalization) and application of this theory to countries indicates one of the ways of inflow of foreign investment, which implies the use of a transit function using location advantage.

12. **It is emphasized** that the countries of the region should use of the geographical advantage. The region should play the role of a corridor between Europe and Asia, which will further increase the role of TNCs in improving the socio-economic environment of the countries.

13. **It is necessary** for the government to constantly monitor the state of the investment environment, to assess how well the factors that contribute to the inflow of FDI flows. they also

should pay attention on activities of TNCs or encouraging economic growth, on increase the efficiency of resource use, on introduction of innovative technologies

14. **It is necessary** to take into account the success achieved through the implementation of social projects, while assessing social environment in the South Caucasus countries. The fact that the GDP of Azerbaijan is two times more than GDP of Georgia, and at the same time the scores of social progress of Azerbaijan in certain areas are much lower than the scores of Georgia, indicates that the dynamics of change between GDP per capita and the social progress index do not always move in the same direction.

15. The social environment in the countries of the region **is studied**. In particular, the social activities carried out by companies in certain countries of the region were brought in line with the principles of sustainable development developed by the International Organization for Standardization, which revealed that the attitudes towards adhering to the principles by companies in the countries of the region are almost the same.

16. The social environment **is studied** according to the "Social Progress Index", where the achievements of individual countries in the region in the field of social development (taking into account the 50 indicators) are almost the same. According to the rating, the level of social environment in the countries of the region was defined as "average level", which indicates that the social environment of the business of national economies is changing in the wake of transnationalization.

17. Priority internal and external directions of corporate social responsibility in the region **have been identified**.

18. **It is necessary** to establish a center / agency, which will be a kind of information camp for collecting and analyzing information about certain activities of companies. The information available within a similar type of agency / center will also help to present the capabilities of the country and the region in general and to develop priorities.

19. **It has been shown** that the transnationalization of national economies in the world has led to the establishment of social responsibility of transnational corporations, raising the issues

of sustainable development, expanding the scope of activities and developing new means of communication. The fact that the practice of social responsibility is more pronounced in large transnational corporations than in small and medium-sized businesses is also explained by the fact that transnational corporations, following long-term strategies, realized the positive consequences of social responsibility for business success and were able to use appropriate resources more easily.

20. **It is noteworthy** that the process of transnationalization and related issues are changing during the global coronavirus pandemic. If in the past (especially in countries with economies in transition, such as Georgia, Armenia, and Azerbaijan) the role of TNCs in improving the social and business environment was significant. The coronavirus epidemic has partially changed circumstances. In particular, the pandemic has become a kind of push for local companies to willingly or unwillingly introduce unprecedented social practices, for example caring for unemployed citizens and vulnerable groups by local companies during the pandemic further strengthened the culture of social responsibility in local companies and promoted citizen benevolence, which could further lead to brand loyalty and competitive advantage.

21. **It is necessary** to improve the legislative system, which is directly related to the entry and activities of foreign companies. Bureaucratic barriers must be eliminated and a flexible legal framework must be provided.

22. **It is necessary** for the state authorities to develop sufficient leverage, which ensures compliance with the minimum social and environmental standards set by law. Which, in turn, pushes companies in the countries of the region to voluntarily switch from voluntary starting points to higher standards and have a positive impact on the countries' integration into international structures.

23. **It has been studied** that the level of public consciousness and the level of awareness about corporate social responsibility in the countries of the region is not so high. Also, as a result of the impact of the World Coronavirus pandemic, there is an increase in the level of awareness of corporate social responsibility in the countries of the South Caucasus.

24. **It is shown** that the countries of the South Caucasus are characterized by low levels of government involvement in the development of CSR programs. None of the official government documents of the countries of the region contains a national strategy for sustainable development, which will facilitate the widespread introduction of CSR in the companies of the countries. This is evidenced by the late introduction of (forced) social responsibility, such as the obligation of the company to pay pension insurance contributions to the relevant fund, the reform of the obligation to submit annual reports, which will make the activities of companies even more transparent.

25. **It is necessary** for companies in the South Caucasus to grasp the positive aspects of applying social responsibility approaches, such as: solving socio-economic problems, solving environmental and ecological problems, moving from voluntary starting points to higher standards, attracting foreign direct investment, etc. Whereas this may be a precondition for the deepening of international relations. In particular, the countries are members of such an international organization and initiative, the important priority of which is the CSR. Also, the countries of the region are also individually attached to many other international agreements that regulate different component of the CSR at the international level. Thus, the development of CSR in the countries of the region will contribute to the improvement of the image of the region in the world and will help to implement of the obligations under international agreements more effectively.

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