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MNEs and development: a review and reconceptualization

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ABSTRACT

In this paper, we review and critique two prominent theories in the international business and international economics literatures regarding the role of multinational enterprises (MNEs) in host country development: the “spillovers” perspective on the impact of MNE investment in host countries and the liabilities of foreignness (LOF) view that specifies the constraints MNEs must overcome to succeed in local, developing country markets. We then propose an alternative conceptualization of MNE-host country relations in which MNEs and local nongovernmental organizations (NGOs) pursue collaborative relationships that make a positive, collective contribution to host country development and to MNE and NGO strategic goals in ways that neither sector is positioned to do alone.

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Debate over the impact of multinational enterprises (MNEs) on host country development, particularly in less developed countries (LDCs), has generated substantial controversy, not only in academia but among those engaged in international development, finance, and global governance. On the one hand, some researchers are optimistic about the impact of MNEs on developing countries. MNEs are important agents, they argue, for promoting economic growth since they complement domestic savings, transfer technology and management skills, increase competition, and stimulate entrepreneurship (Caves, 1974; Lowe & Kenney, 1999; Teece, 1977; Rugman, 1981). On the other hand, another group of researchers opposes this view suggesting that MNEs are more likely to crowd out local firms, use technology that is inappropriate for local circumstances, actively constrain potential technology spillovers, and reduce (rather than complement) the domestic capital stock and tax basis due to transfer price manipulation and excessive profit

repatriation (De Backer & Sleuwagen, 2003; Görg & Greenaway, 2002; Haddad & Harrison, 1993).

Controversy about the impact of MNEs on developing countries is not limited to economic effects alone. There has also been extensive research on the potentially damaging effects of MNE activity on social welfare (Baran, 1957) and the natural environment (Clapp & Dauvergne, 2005; Daly, 1993). Researchers have argued that MNEs operating in developing countries may have inadequate safety standards, employ child labor, pollute the host country environment, and create sweatshop conditions in their factories (Clapp & Dauvergne, 2005; Daly, 1993; Korten, 2001). Some researchers have argued that MNEs seek out countries with low environmental, labor and safety standards to reduce operating costs and maximize output (Daly, 1993; Porter, 1999; Wheeler, 2001). Developing countries wishing to attract and retain MNEs and foreign direct investment (FDI) are thus forced to participate in a global ‘race to the bottom’ where the country with the lowest standards receives a greater proportion of investment. Other scholars have criticized the ‘race to the bottom’ perspective suggesting that MNEs may actually raise the environmental, labor and safety standards in less developed countries (Christmann & Taylor, 2001; Dowell, Hart, & Yeung, 2000; Wheeler, 2001).

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This debate, and the more general concern about the role of MNEs in promoting development, leads to the two research questions we focus on in this conceptual paper: (1) what do the prominent theories in the international business literature suggest about the role of MNEs in host country development? To the extent that these theories do not sufficiently address the role of MNEs in social and economic development we then ask, (2) can collaboration between MNEs and NGOs offer a more promising approach for promoting economic development in developing host countries? To answer the first question, we begin by briefly reviewing past perspectives on MNEs and their impact on economic development, including the empirical evidence, where available. We then focus our analysis more narrowly by critically examining two of the most prominent theories in the international business literature that relate to MNE operations in developing countries and the potential for economic development; the “spillovers” perspective on the impact of MNE investment on host countries (Aitken & Harrison, 1999; Blomstrom & Persson, 1983; Rodriguez-Clare, 1996; Yamin & Sinkovics, *in press*) and the liabilities of foreignness (LOF) view that specifies the constraints MNEs must overcome to succeed in local, developing country markets (Zaheer, 1995, 2002; Zaheer & Mosakowski, 1997). In deconstructing these theories, we reveal their conceptual and practical limitations in an era in which expectations that MNEs should make positive contributions to host country development are intensifying.

Building on our critique of the literature, we discuss the emergent role of NGOs, and borrowing from the literature on cross-sectoral alliances, we propose how the integration of global MNE and NGO capabilities can contribute to host country development and to MNE and NGO strategic goals. Toward this end, we suggest that MNEs and MNE capabilities can be harnessed by, and integrated with, locally based NGOs to advance development. We suggest an alternative conceptualization of MNE-host country relations in which MNEs and NGOs pursue collaborative relationships that make positive, collective contributions to host country development in ways that neither sector is positioned to do alone. We argue that a reconceptualization of the relationship between MNEs and host country development is necessary to go beyond the current perspectives that rely on the MNE merely contributing residual resources or simply assimilating to the local environment.

1. MNEs, development, and international business (IB) theory

Given the increasing interdependence between developed and developing countries, the interests of both of these two country groupings must be fully considered and advanced for productive relationships to develop (Ghauri & Buckley, 2006; Ghauri & Cao, 2006). For MNEs to be credible partners in host country development, researchers must acknowledge the range of economic and social impacts of modern global capitalism, including its negative side-effects (Dunning, 2003). In this section, we briefly review some recent criticisms of IB research as it relates

MNEs and development before examining two specific IB literatures in detail.

1.1. MNEs, IB, and development: critical perspectives

In a critical analysis of international management (IM) research and its application to economic development, Cooke (2004) argues that despite the fact that management theories and practices now permeate social and economic development thought and policy, IM research has largely ignored the third world. Much of the IM research over the last several decades has focused on countries in the Triad (the United States, Western Europe and Japan), rather than emerging market and developing country contexts. Cooke (2004) further asserts that the economic efficiency goals adopted in the developed world, espoused by the World Trade Organization (WTO) and promoted for the developing world, are actually mechanisms that advance first world MNE expansion and profit motives rather than economic development. For example, he suggests that the policies of the WTO and World Bank are aimed at diminishing the role of the state, expanding global markets, and promoting labor market flexibility. These goals, Cooke (2004) argues, directly support MNE interests over third world development concerns. Joseph Stiglitz, the Nobel Prize winning economist and former Senior Vice President and Chief Economist at the World Bank (1997–2000), made similar arguments in his critique of the International Monetary Fund (IMF) and World Bank policies. He asserted that these organizations advise clients (host country governments) to liberalize their industries without informing them about the consequences of such actions (Stiglitz, 2002; Dalgic, 2005). More ardent critics have even suggested that economic progress in the developing world is inimical to the interests of advanced capitalist countries (Baran, 1957). Palma (1978) asserts that MNEs and governments from the developed world may form alliances with developing country elites in order to pave the way for easy access to their countries' raw materials and cheap resources.

A number of IM researchers also recognize the importance of a more critical approach to MNEs and their impact on host countries. As Eden and Lenway (2001) have argued, MNEs, by definition, span national borders, but local firms and organizations in developing countries may be more geographically restricted. The resulting “asymmetry in mobility means that the less mobile may pay more of the costs of globalization, incur greater instability in earnings, and see their relative bargaining power fall” (Eden & Lenway, 2001: 388) Although skeptical of MNEs' need to engage in non-business activities, Rugman (1993: 87) has recognized that...“the single goal of efficient economic performance through a simplistic globalization strategy will be compromised by the need for the MNE to be more responsive to social needs and national interests” (as quoted in Eden & Lenway, 2001: 389–90).

1.2. MNEs, development, and spillovers

Specific studies of the developmental impact of MNEs on the host countries in which they do business are

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