

REVIEW ARTICLE

Globalization: economic opportunities, social challenges.

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The Role of Multinational Enterprises in Globalisation

Jorn Kleinert

(Berlin and New York, Springer-Verlag, 2004), xv + 211 pages

*Nation States and the Multinational Corporation: A Political
Economy of Foreign Direct Investment*

Nathan M. Jensen

(Princeton and Oxford, Princeton University Press, 2006), xiv +
193 pages

*A Corporate Solution to Global Poverty: How Multinationals Can
Help the Poor and Invigorate Their Own Legitimacy*

George Lodge and Craig Wilson

(Princeton and Oxford, Princeton University Press, 2006), xii +
198 pages

International Business-Society Management

Rob van Tulder with Alex van der Zwart

(London and New York, Routledge, 2006), xix + 440 pages

Over the past decade or so, the debate over the merits and demerits of globalization, and the role of transnational corporations (TNCs) in fashioning its structure and outcome, has shifted from an almost exclusive concentration on its economic implications to embracing some of its social and

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cultural consequences. Broadly speaking, the economic effects of the closer integration of people, organizations and ideas, and of the fall in transport and communication costs are well known. The impact of the lessening significance of physical distance and the easier transfer of knowledge over space – particularly between advanced industrial countries - is expertly analysed by Jorn Kleinert in his book. He argues persuasively that to reap the full economic benefits of globalization and TNC activity, markets must be kept open, competitive and flexible, and that the role of national governments and international agencies should be confined to smoothing the accommodation to change, which a highly integrated and dynamic world economy demands. Much of the argument set forth by Kleinert will be familiar to economists, but nowhere have I seen the theoretical underpinnings of distance related explanations for trade and international production more rigorously or elegantly argued.

The other three books reviewed here are very different in that they are concerned with the impact of globalization on the wider well-being of its participating constituents. While fully acknowledging the economic gains resulting from a more efficient allocation and usage of resources and capabilities fashioned by TNCs, each volume is more concerned with the impact of globalization on national or regional customs, values and belief systems; the social downsides of globalization, e.g. the easier transfer of such “bads” as drug trafficking and terrorism; and the volatility of the human environment, which technological change frequently demands. Each of the three volumes also addresses the changing interface between the main actors in the global economy, viz. TNCs, national governments, supranational entities and civil society. Each seeks to identify the creation and use of resources and capabilities and the exploitation of markets, and the conditions under which this task is consistent with the sustenance and upgrading of a socially acceptable human environment.

Each of the three volumes, then, goes beyond the issues tackled by the Kleinert book and other economic treatises. Each asserts that the gains of economic development and restructuring must be assessed by its impact on the wider objectives of its

constituents. Each strongly argues that many of these – e.g. those to do with security, health, education and the environment – require an institutional infrastructure which only extra-market actors, notably governments, can provide. Each also addresses issues concerning the incentive structures and rules of the game which will determine whether or not the kind of economic gains offered by global integration are in fact achieved. Two of the three books address specific issues related to the consequences of globalization and TNC activity. Each in its own way is quite insightful in exploring previously neglected issues. The volume by Nathan Jensen, for example, examines a number of institutional variables affecting the geography of FDI. In so doing, he finds that the content and quality of the business environment is a more significant determinant of the locational choices of TNCs than are traditional economic variables. In particular, he identifies the role of democratic political institutions, including federal institutions and the role played by the IMF, as especially significant determinants of the FDI inflows. Based on a combination of cross sectional and time series approaches for 114 countries between 1990 and 1991, Jensen constructs a carefully crafted rigorous empirical study. I very much like his analysis, not least because he complements his econometric work with a number of case studies. *Inter alia*, he finds that by mitigating risks, politically federal institutions attract more FDI than unitary regimes; government levels of spending and taxation affect FDI only marginally; and countries under IMF agreements tend to attract less FDI. Perhaps most significantly of all, Jensen finds that countries with democratic political institutions draw in as much as 78% more FDI than do authoritarian regimes.

The above results are further confirmed by the author's analysis of the websites of 115 investment promotion agencies and interviews with some nine TNCs. In Jensen's own words, "Interviews with eight investment agencies confirmed that fiscal policy is not generally a major determinant of fdi inflows" (p.68), and again "Most multinationals interviewed highlighted the advantages of investment in democracies. No firm interviewed made any claim that other regime types provided a more

favourable investment environment” (p.97). Finally, in his analysis of the influence of international institutions on the location of inbound TNC activity, he writes “IMF conditions can potentially have a positive impact but they have a negative impact if applied in a one-size-fits-all fashion” (p. 144).

If the focus of Jensen’s study is on the impact of institutionally related factors on inward FDI, that of the Lodge and Wilson book is on the actual and possible role of TNCs in alleviating poverty. Again, although full acknowledgement is given to ways in which the reservoir of all kinds of knowledge and organizational skills possessed by TNCs might be transmitted to the poorest countries, the focus of this study is on the legitimacy of such organizations, as viewed from the lens of government, civil society and individuals. All too frequently, the authors assert, TNCs are perceived to behave in a socially unacceptable way, notably (so it is claimed) by an irresponsible use of economic power, fostering an uneven distribution of income, only serving the interests of their shareholders and, more generally, doing little to reduce poverty. Each of these concerns poses a challenge to the social legitimacy of TNCs. Indeed in 2001, Peter Drucker argued that such a challenge might be the biggest faced by large firms and particularly the modern TNC (Drucker, 2001).

While accepting some of the criticisms, Messrs Lodge and Wilson remind their readers that TNCs still remain the main repositories of the resources, capabilities and markets needed to promote responsible global capitalism and to reduce poverty. Because of this, they urge national governments and the international community to legitimize the role of TNCs more effectively, and to do so by providing them with the public resources to serve community needs without threatening their very existence as profit maximizing organizations.

To this end, the authors propose the setting up of a World Development Corporation (WDC) under the auspices of the United Nations. The task of the WDC would be “to harness the skills, capabilities and resources of leading global corporations

to reduce poverty and improve living standards in developing countries” (p.15). It would be a non-profit and collaborative organization in which the leading TNCs would work closely with existing international development agencies and civil society organizations. By encouraging a holistic and communitarian approach to the task of wealth creation, and by more openly demonstrating their responsibility to serve the needs of society at large, Messrs Lodge and Wilson believe that TNCs would claw back at least some of their lost legitimacy.

In elaborating this thesis, the authors are strongly critical of what they perceive as the American neoclassical economic approach to wealth creation. Instead, they propose a new ideological framework based upon communitarianism, the rights and duties of wealth creators, the needs of particular institutions, an active planning state, and a better recognition of the social and cultural inter-dependencies exposed by globalization. They argue that such a framework should not be considered as one that replaces the market as the leading wealth creating institution, but rather one which acknowledges that extra market actors – and especially national governments - are the main fashioners of the formal and informal institutions which ensure that the market meets societal needs. Yet, the authors assert that if this goal is to be realized, TNCs and extra market actors need to work together. They must recognize that each has a particular and distinctive, yet complementary, role to play in both institutional development and wealth creation. Each must accept the need for continual institutional reappraisal and for designing and implementing the incentive structures which will ensure TNCs will be responsive to societal goals. In their recommendations, the authors make a persuasive case that institutional upgrading should be given high priority in meeting the economic and social challenges posed by globalization.

The final volume to be reviewed is that by Rob Van Tulder and Alex van der Zwart. Its main task is to describe the interaction between the workings of a triad of economic and social actors – viz. the market, NGOs and national governments - in so far as, working together, they can affect and contribute towards business-society management. The book is quite

encyclopaedic in coverage, and the authors brilliantly summarize the contributions of a wide variety of scholarly disciplines in their review of the ways in which the interaction between the main constituents of capitalism can help to advance wealth-creating goals in a socially acceptable way. Each underlines the need for an integrated approach to understanding globalization and responding to its opportunities and challenges – and particularly so with respect to its implications for corporate social responsibility (CSR). Furthering CSR is one of the main interests of the authors, and their analysis of this topic and the recommendation for action is one of the very best I have read on the topic. The gamut of institutions – formal and informal, top down and bottom up, micro and macro, are all well described, and placed within the context of different national cultures and stages of economic development.

The authors introduce a host of new ideas, such as the role of institutional openness and institutional rivalry in influencing the level of structure and international business (IB) activity. They document rival success stories and alternative internationalization patterns. They evaluate the consequences of the rise of a global civil society. They reappraise the role of nation states in a closely integrated world economy. They examine the trade-offs between regionalization and globalization. They tackle the issue of the bargaining society and the changing legitimacy of the main actors. They argue the case for a holistic approach towards different measures of, and ideas about, cross-border distance, and how an interactive and cooperative approach to international corporate responsibility might help such distances to be minimized. They describe the changing characteristics of national and regional governments in a world in which values and belief systems are in flux. They examine different extra market approaches to fashioning the mindsets and behaviour of TNCs. They look into a variety of sustainability challenges as they affect the global governance of firms, corporate citizenship and structural change. They emphasize the importance of reputation as a competitive asset of a TNC, and how any damage to the reputation of corporations might be corrected by the appropriate CSR strategies. To each

and all of these issues, the authors bring a fresh and constructive appraisal, while in Part III of this fascinating and well-researched volume, there are some excellent firm-specific case studies on the international bargaining society in action.

In summary, each of the monographs by Jensen, Lodge and Wilson, and van Tulder and van der Zwart have much in common. Essentially, they are each concerned with advancing a dialogue between and among the primary stakeholders in global capitalism, viz. TNCs, national governments, supranational entities and special interest groups. They assert that such a dialogue and any strategic actions or policy changes that might stem from it, should essentially focus on issues related to the human environment, and particularly on the institutional framework which underpins the determinants and impact of TNC activity so well described by Jorn Kleinert in his monograph. The critical message of the three volumes is loud and clear. If globalization is to be economically efficient and socially inclusive, then more attention must be given by all of its constituents to the institutional framework underpinning the wealth creating activities of firms. Moreover, such issues should be more consciously included in mainstream IB teaching and research, and particularly in any evaluation of the role of TNCs in economic development.

Some of the recommendations of the volume are also very similar. Each points to the need to consider the social consequences of TNC activity, and each stresses the need for a partnership approach to ensure that the benefits of globalization are shared as widely as possible. Each emphasizes that the promotion of a common social, not to mention an ethical responsibility - as applied to the attitudes and behaviour of both market and non-market actors - need not be in conflict with the wealth creating functions of firms. Each endorses the view that TNCs might play a more important role in advising governments and international agencies on their economic and social policies, and in cooperating with them in the implementation of such policies. Each stresses the need of the main organizing entities of global capitalism to acknowledge and to do their best to reconcile the economic advantages of globalization with the

needs of local communities to advance their own social agenda and to participate in the decision taking process. Each also recommends that a reappraisal of the legitimacy of these same constituents in the light of such challenges posed by global warming, poverty reduction, international terrorism and non-ergodic economic and social change. Each is sending a clear message to IB scholars to take a fresh look at their spheres of interests and concerns, as well as underscoring the need for interdisciplinary research and for the pursuance of new (and sometimes) non-quantitative methodologies.

What, if anything, is my criticism of these four contributions? In the case of the Kleinert volume, I think that the author should have more explicitly acknowledged the extra-economic goals of globalization and of the institutions underpinning the models of TNC behaviour he evaluates. I would also have liked Nathan Jensen in his volume to have emphasized the role of economic and social incentive structures in influencing the behaviour of TNCs, and perhaps also applied his analysis to outward FDI. One lacuna in the Lodge and Wilson contribution is how TNCs might act as vehicles for transferring the best practices they have adopted or accessed as a result of their global operations to newly invested host countries. In addition, perhaps in their future research, van Tulder and van der Zwart might look further into the ways in which different kinds of formal and informal institutions effect the triangular relationship between TNCs, governments and civil society, and perhaps take up in more detail how the various stakeholder initiatives they identify might be most effectively put into practice.

In conclusion, each of the four books reviewed here deserves the widest possible readership. Yet, I doubt (though I would like to think I am wrong) that apart, perhaps, from the first, they will not be appearing on the reading list of mainstream IB courses. This I very much regret, and I think that the issues tackled by Professors Jansen, Lodge and Wilson, and van Tulder and van der Zwart are among the most critical of our day and age, and that the methodologies they pursue and the attention

they give to the institutions affecting the cognition, motivations and conduct of the main wealth creating actors in our global economy are “ahead of the scholarly” curve.

Perhaps, rather paradoxically, these volumes may find that they receive the closest attention from governments, business practitioners and NGOs. This, in itself, is to be applauded, as they are the main entities which need to be persuaded if a more interactive relationship on successfully tackling the challenges - and particularly the human challenges - is to be achieved. How can other academic communities contribute to this goal? One answer is for researchers to engage in partnerships with TNCs, national governments, NGOs and international agencies in trying to resolve (or at least shed light on) some of the key issues identified in these volumes. On a personal note, from my long experience in working with a variety of governments and international agencies, my own scholarly endeavours have enormously benefited from the interchange of knowledge, ideas and experiences.

Reference

Drucker, Peter (2001). (quoted by Lodge and Wilson). “Will the Corporation Survive?”, *The Economist*, 3 November, p. 16.

Corrigendum

The August 2006 issue of this journal (vol. 15, no. 2) contained an article titled “Foreign direct investment in infrastructure in developing countries: does regulation make a difference?”, co-authored by Colin Kirkpatrick, David Parker and Yin-Fang Zhang. However, we failed to include the affiliation details of Professor David Parker. We apologize for this omission.

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