

Do MNEs contribute to or reduce global inequality?

An introduction to the special issue

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Background to the special issue

In this special issue, we continue the critical perspectives and conversations that *critical perspectives on international business (cpoib)* promotes by reflecting on the nature and impact of contemporary international business (IB) activities around the globe from inter-, trans- and multidisciplinary perspectives. The journal places a special emphasis on scholarly works that question the hegemony of multinational enterprises (MNEs) and that evaluate the effects of their IB activities on the global economy and national societies (*cpoib*, n.d.). Hence, for this special issue we invited submissions of articles that address the theme: "Do MNEs contribute to or reduce global inequality?". Here, the term 'inequality' refers to various societal and economic phenomena inside or across nation states, such as income, gender, social class, economic conditions, and welfare.

Although the relationship between nation states and MNEs has been historically important, dominant IB thinking has traditionally paid considerably greater attention to firm level factors of MNEs such as strategy, structure, and performance. Vernon's (1966) product cycle model provided an early foresight of how MNEs (through trade and investment) could shape countries' development prospects whilst Hymer's pioneering work, in the early 1970s, (1970; 1972a,b; Hymer and Rowthorn, 1971) portrayed how MNEs' "globally-segmented hierarchies" could lead to the "developmental stratification of the world-economy" (Pearce and Papanastassiou, 2006:152). Buckley and Strange (2015) draw attention to the paradox that while participation in global value chains orchestrated by MNEs can generate considerable economic development benefits for emerging economies, the implications for the global distribution of income are not necessarily positive. For offshoring, where the MNE retains ownership and control of the activities, they argue:

"Certainly there will be greater employment opportunities and higher labor remuneration within the host emerging economies, but the (increased) profits from the dispersed value-chain activities will accrue to the shareholders of the MNEs. The overall impact on income in the host emerging economies will be

limited, while the MNEs' shareholders (predominantly in the advanced economies) will generally profit from these overseas ventures in the long term, even considering the risks they incur in making the capital investments in the host countries. Global inequalities in the distribution of income may thus be exacerbated as a result..." (p. 244)

Buckley and Strange (2015) are no more optimistic concerning the global distribution of income when MNEs outsource rather than offshore routine activities. More broadly, UNCTAD (2013) argues that inequalities may not be limited to economic or social inequalities but also to environmental ones. While, for example, Wang and Gooderham's (2014) study shows how a specific region in China developed economically through being part of the global production network, Zhao (2019) notes how the most invested regions in China suffered as a result of extensive production activities in the form of environmental deterioration and long-lasting damage to public health.

As argued by Doh (2019) and Giuliani (2019), the debate on whether MNEs contribute to equality or inequality remains open and as one of the "grand challenges" of IB, it thus needs to be systematically addressed (Buckley *et al.*, 2017). The urgency of this issue is emphasized in a recent Editorial by the Editors of *cpoib*, Christoph Dörrenbächer and Snejina Michailova (2019), who note:

"More recent contributions (Buckley et al., 2017; Delios, 2017; Doh, 2017; Michailova, 2011; Roberts and Dörrenbächer, 2012, 2014, 2016) have suggested topics for future IB research and directions it should follow to gain relevance. In many cases these attempts have resulted in not much more than wish lists for a more inclusive, societally engaged IB scholarship, derived from the most urgent global problems, including but not restricted to global climate change, global inequality and poverty, to mention but just a few. Yet, it seems to us that there are more articles issuing the calls for such research than those that actually offer conducted research in that space! When it comes to published content-related research on such topics, we can only conclude that IB scholarship is still largely silent about topics of utmost (we dare to say urgent) relevance to the societies we live in." (p.113).

Indeed, with some exceptions such as Ackroyd and Murphy (2013), Lee and Gereffi (2015), and Roberts and Dörrenbächer (2016), IB scholars have shown relatively sparse interest in the societal, economic, and cultural consequences of the emergence and growth of MNEs. Piketty (2014) suggests that the world is witnessing rising inequalities in both advanced and emerging economies, a reversal of the post Second World War trend towards greater equality and integration. Therefore, a critical question worth asking is what role (if any) MNEs play in the development of this

trend. In April 2017 this question was a core plenary theme at the Academy of International Business UKI Chapter Conference. Panellists and delegates were divided on the issue, but several presenters argued that MNEs operating in contexts of institutional voids generally generate significant inequality.

Two related developments contribute to the necessity and opportunity for greater dispersion. At the firm level, we see an intensified exercise by MNEs to fine-slice and (re)locate global value-chain activities to the most advantageous locations (Buckley 2009; Mudambi and Santangelo, 2016). At the country level, we witness dynamic shifts in market and institutional conditions of both home and foreign nation states. For instance, some recent evidence shows that, for the first time in history, a significant growth in advanced economy MNE innovation investment is taking place in emerging economies (Awate *et al.*, 2015; Jha *et al.*, 2015). This is predominantly due to institutional improvements and preferential government policies for promoting and supporting innovation activities in these countries (Liu *et al.*, 2011). These are also seen as new learning opportunities for emerging economy firms to grow and to internationalize. According to UNCTAD (2015; 2019), the world has witnessed an increase in outward investment from emerging economies to advanced economies as well as other emerging economies during the past ten years. As such, nation states around the world are experiencing the most extensive and dynamic MNE activities in their local territories to date (Clougherty *et al.*, 2017).

However, negative outcomes of MNE activities are increasingly noted. For instance, MNEs that were once trusted are found to act illegitimately across host countries. A recent case is the Volkswagen 'Dieselgate'. In September 2015, the company admitted to cheating official environmental standard requirements by installing software inside each vehicle to falsify system information (Howe, 2015). A survey initiated by Legatum Institute London, an international think tank for promoting policies to address poverty, reveals that the public holds a largely negative view on MNEs (Withnall, 2015). The survey covered seven nations, including advanced (Britain, USA, and Germany) and emerging economies (Brazil, India, Indonesia, and Thailand) and revealed that 90 per cent of respondents believe MNEs are not 'clean' and a substantial majority agree that MNE actions in host countries contribute to a growing inequality gap. Some other examples worth noting include the case of the collapse of an eight-story complex of clothing factories in Bangladesh. This tragedy caused the death of over 1,000 workers (mostly young female) (Taplin, 2014). Lim and Prakash (2017) explain that Western brand owners often pressurise local suppliers to fulfil orders, causing the suppliers to reduce wages to the bare minimum and ignore extremely poor working conditions. In the case of the UK, Taylor and Driffield (2005) find empirical evidence which shows that inward investment by MNEs leads to 11

per cent increase in wage inequality because of shift in demand for new labour skills. On the other hand, positive cases can also be identified. For example, in a similar study on wage and labour skill, but in the case of Ireland, Figini and Görg (1999) find that the rise in wage inequality because of inward investment is temporary and drops eventually. In the case of China, Greaney and Li (2016) find no evidence that MNEs are to be blamed for the prominent issue of urban-rural income inequality.

Featured articles

In order to go beyond these scattered examples as to how MNEs contribute to inequality, this special issue sought articles which conceptually or empirically advance the debate on the relationship between MNEs and inequality. The articles included in this issue provide particularly interesting and diverse theoretical or empirical angles or evidence useful in enhancing our understanding of the role MNEs play in contributing to inequality. Before we start addressing each of the articles in this special issue, we would like to dedicate this special issue to Robert D. Pearce for being a major scholarly inspiration for this special issue as well for his specific contribution to this special issue. His article (which is the leading article in the special issue) is one of the last pieces he drafted before his passing. Robert Pearce's key contribution to the IB discipline was the study of the differentiating scope of MNE subsidiaries as it was reflected by their overseas R&D laboratories and their linkages with external actors on the development of local economies (Pearce, 1989). In Mark Casson's words: "Ever since his undergraduate days, Bob [Robert Pearce] had been committed to promoting the economic development of poorer countries, and through his study of international business he realized the crucial role that multinationals played in transferring technology to these countries. Bob maintained that the key to economic development was to give the local subsidiaries of these firms the autonomy to adapt the firm's technology to local conditions and turn the developing countries into export hubs, serving entire continents and even the whole world." (in Obituary of Robert Pearce, published by University of Reading, 21/05/2018). In his last book, Robert Pearce argued: "The ever-increasing visibility of MNEs as a key agent in the evolving global economy, and the concomitant deepening of their role in mediating the ways individual national economies are positioned in that wider economy has always provided concern, both inside and outside the confines of IB theorizing, over the implications of their behaviour and performance" (Pearce, 2017: 9). In other words, Robert Pearce inquired whether the MNEs' behaviour stimulated or offset inequalities in global economies. His article (co-authored with Yuxuan Tang) in this special issue explicitly addresses this question by proposing an evaluation framework comprised of four generic dimensions, i.e. efficiency, distribution, sovereignty

and growth and development, that builds on the intellectual premises of the 'eclectic paradigm'

Four articles are featured in this special issue. The leading article by Pearce and Tang proposes an evaluation framework of MNEs' performance and discusses their implications in contexts beyond the achievement of their own commercially driven internalised competitive objectives. More specifically, based on the 'eclectic paradigm' and the range of firm motivations, the authors propose a four dimensional 'evaluation framework' which presents 'efficiency' as a static optimisation, with 'growth and development' representing the dynamics of changing away from a purely economic view, the political/economic sphere as a concern for the justice or fairness of the outcomes of 'distribution', and 'sovereignty' as the more purely political concern of how MNEs may undermine the policy independence of particular countries. Within these broad agendas, the significant interactions and outcomes reflect a range of contingencies conditioned by both MNE objectives and the competitive status of hosts.

The second article by Narula and van der Straaten continues this discussion by offering an insightful commentary on how MNE activities in host economies impact on economic inequality and the importance and urgency of examining such inequality from a within-country perspective. Research into the extent to which MNEs affect within-country inequalities is still in its infancy. The authors find existing research on the impact of foreign direct investment and MNEs on host countries to excessively rely on spillover arguments and thus present an overly rosy view of net outcomes for host countries. Instead, they agree with Pearce and Tang's (in this special issue) suggestion (in this special issue) that an exploration of the interaction between MNEs and national economies (i.e. the interdependent relationships between firm performance and national competitiveness) from within these countries can generate important new insights. They further add that these insights should be complemented by studies on how MNEs affect the development of host countries in other dimensions beyond income and employment (such as the environment and innovation). Moreover, the authors call for a broader engagement with inequality beyond income levels (which is only one aspect of inequality that shapes or impedes human development).

The third article by Ramos focuses on identifying possible differences between advanced and emerging economies in terms of whether individual wages of the locally hired increase or decrease as a result of value-chain activities. The author pays particular attention to individual wages as the main measure used in the study. To do so, she applies panel data techniques to employees of two countries which

represent two different experiences of value-chain activities in Central Europe: Germany and Slovenia, over the period 1995-2007. The results are mixed. This article offers one of the few empirical assessments of the effect of value-chain activities on individual wages, using national level data from two European countries. It shows that inequality is a complex phenomenon to measure and that the effects of value-chain activities on wages can differ by country, by industry and by individual skills.

The fourth article by Rygh provides a comprehensive and critical review of the existing literature on MNEs and global value chains and inequality. The author reviews several important limitations in the literature and suggests gaps where further IB research is imperative. Rygh also draws on research from other fields and provides a fresh angle to the very question this special issue proposed, i.e. whether and how MNEs contribute to (or reduce) inequality. In addition to being one of the first comprehensive reviews of the IB literature on the potential effects of MNEs on economic inequality, it also presents relevant literature from various other disciplines (such as economics). It is evident in the author's review that the topic of economic inequality has received scant attention in IB research. To address this gap, Rygh develops a simple framework outlining channels of effects from MNEs activities on different forms of inequality. This provides useful insights for IB scholars in terms of future research avenues in the area of economic inequality.

In summary, these four articles represent an ongoing conversation within the IB community on the topic of MNEs and (in)equality. The first paper by Pearce and Tang provides an insightful framework of MNEs and their impact beyond a narrow view firm performance and in so doing, it sets the scene for the other articles. The next three articles flesh out some of the ideas emerging from this first study by dealing with various facets of inequality, some of which are driven by MNEs and others by global value chains in the context of transitioning or emerging economies. Specifically, the article by Narula and van der Straaten offers a commentary response to Pearce and Tang's study, with a discussion on within-country inequality. This is followed by the study by Ramos which examines empirically the impact of changing MNE value-chain activities on individual wages in the context of an advanced and an emerging economy. Last but not least, the article by Rygh offers an overview of inequality from different perspectives within IB and across other disciplines. In conclusion, it is fair to state that this special issue has not provided an unified answer to the central question we started with (i.e. do MNEs contribute to, or reduce inequality?), rather it adds further insights and illustrates the complexity we face in theorizing, measuring, and understanding the important link between MNEs and (in)equality.

Despite the insightful conversation this special issue offers, we acknowledge there remain many more questions on the role that MNEs play in the global distribution of income as well as regarding other factors, such as the environment. We list some of the questions here that we urge IB scholars to consider. First, to what extent does MNEs' foreign direct investment impact on the multi-level environment in host countries (macro-level: e.g. culture, institutions; micro-level: e.g. individual, family)? This calls for research that is sensitive to both macro-level context and the characteristics and actions of micro-level actors (Foss and Pedersen, 2019), which may well require longitudinal studies to capture the effects over time. Second, we ask to what extent do emerging economies and advanced economies experience different or similar impact of MNE activities? Here, we call for research that examines and contrasts the impact of specific types of foreign direct investment in both contexts and that investigates the mechanisms through which these economies are able to capture their respective share of the benefits. Third, we would encourage studies that illustrate the methodological challenges and solutions when collecting empirical data in relation to MNEs and inequality (and equality). This includes the methodological considerations of measuring the impact of MNE activities in host economies. Fourth, we would welcome studies that combine managerial with developmental policy insights. This could involve investigating the relationship between MNE managerial decision-making and practices and outcomes in emerging economies. In so doing, research could inform policy development by governments that would ensure outcomes that are more equitable.

In sum, this special issue brings together research that addresses the topic of (in)equality as a consequence of the activities of MNEs. As editorial team, our intention has been to present a conversation in order to draw more IB scholarly attention to this crucial issue. Further, it is our hope that the contributions to this special issue will provide a springboard for future research around the issue of MNEs and their consequences on global wage levels, working conditions and environmental quality.

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