MULTINATIONAL ENTERPRISES
AND THE NEW DEVELOPMENT PARADIGM:
CONSEQUENCES FOR HOST COUNTRY DEVELOPMENT

John Dunning and Fabienne Fortanier

Georgia Tech Center for International Business Education and Research
Working Paper 011-07/08
http://www.ciber.gatech.edu
For further information: email: ciber@mgt.gatech.edu

October 2006

(c) 2006
MULTINATIONAL ENTERPRISES
AND THE NEW DEVELOPMENT PARADIGM:
CONSEQUENCES FOR HOST COUNTRY DEVELOPMENT

JOHN DUNNING
University of Reading

FABIENNE FORTANIER
University of Amsterdam Business School
Roetersstraat 11
1018 WB Amsterdam
The Netherlands
Email: F.N.Fortanier@uva.nl
Tel: +31 20 525 6140
ABSTRACT

The New Development Paradigm (NDP) integrates the theoretical and empirical views on development that have gained prominence since the mid-1990s. In particular the multifaceted nature of development objectives – including social and ecological development next to economic growth – and the critical role of institutions in the development process characterize the NDP. This new perspective has important consequences for understanding the role of Multinational Enterprises in fostering development. This paper addresses these implications and delineates a research agenda that pays systematic attention to the wide variety of direct and indirect, active and passive ways in which MNEs can (and do) affect sustainable development.
INTRODUCTION

The New Development Paradigm (NDP) is a reflection of new theoretical views and empirical evidence in development studies with respect to what ‘development’ ought to encompass, and how it should be achieved (cf. Stiglitz 1998; North 1994, 2005; Sen 1999; Dunning 2006). While certain components of this NDP can be traced back to the 1970s, the paradigm gained prominence in the mid-1990s, when a combination of trends and events – including the fall of the Berlin Wall, the advent of globalization, the greater awareness in the western world due to the spread of ICT and internet of the development problems elsewhere, and the sometimes disappointing results of development policies based on neo-classical thinking – induced academics and policy makers to reassess their views on the nature of development and the development process. In particular, the NDP proposes to address a much wider range of development aims, including social and ecological development next to economic growth. In addition, the NDP highlights the role of high quality institutions both as a key means to achieve these development objectives and as an end in itself.

In a recent Transnational Corporations article, Dunning (2006) moved these ideas into the realm of International Business (IB). The article asserted that the NDP compels academics and policymakers to reassess, firstly, the ways in which MNEs respond to the reappraised nature and purposes of development, and secondly, how MNEs help to shape it further. Whereas the Transnational Corporations paper tackled the first question, this paper focuses on the second question: how do, and how could, MNEs not only contribute to economic
growth, but also the wider range of dimensions that development is seen to entail. In addressing this question, we build in particular on a long tradition of IB research on the impact of IB activity on host countries. Starting from Lall and Streeten (1977), many scholars have addressed this issue over the years, as summarized in reviews by e.g. Caves (1996), Meyer (2004), and Fortanier and Maher (2001). The purpose of this paper is to explore how an NDP perspective on this traditional IB question helps identifying those development issues, means and mechanisms that have not yet been addressed in this debate, and what that implies for future theoretical and empirical research on the MNE-development relationship.

The remainder of this paper is structured as follows. First, in section 2, the main components of the New Development Paradigm are briefly introduced and contrasted with what can be called the ‘Old Development Paradigm’ – primarily neoclassical economic theory. Subsequently, sections 3 to 5 explore how these innovations affect established theory and empirical evidence regarding the impact of MNEs on development, and to what extent they highlight research questions that have not yet received systematic attention. Three elements are of particular importance: first, the NDP proposes a definition of development that encompasses much more than sheer economic growth – the dependent variable for most mainstream work on the effect of MNEs (section 3). Secondly, the NDP proposes a much stronger focus on institutions, not only as a means towards development and as aim in itself, but also as important factor – especially in the home country – influencing MNE Ownership advantages, and hence MNE strategies and characteristics (section 4). Thirdly, in addition to considering new development goals and new MNE ownership advantages, the broader perspective of MNE roles enables us to also consider a number of new impact mechanisms through which MNEs affect development. These mechanisms are exemplified with a number
of illustrative examples (section 5). Section 6 briefly summarizes the research implications that we suggest throughout the paper.

**THE NEW DEVELOPMENT PARADIGM**

The New Development Paradigm gained prominence from the mid-1990s onwards as a reaction to what can be designated as the Old Development Paradigm (ODP), or neo-classical development thinking of the 1970s and 1980s (Dunning, 2006). This ODP reflected the general consensus in development theory in that period on (1) development ends, (2) the means to achieve it, and (3) the processes that linked means to ends. Development as a concept was phrased primarily in economic terms and involved GDP per capita and productivity growth. No attention was paid to the social dimensions of development or the natural environmental context in which development was embedded. The main means to achieve development was to facilitate market transactions and international trade, as these were believed to be most effective in allocating resources and maximising aggregate economic welfare (cf. Bauer, 1984; Little, 1982; Bhagwati, 1977; Krueger, 1985). The neo-classical approach represented a theory of static, rather than dynamic growth. The single equilibrium models that were deployed did not account for dynamic growth; technological progress was determined by exogenous factors.

Several developments, however, triggered important changes in this ODP view. These included first of all, the disappointment over the results of development policies based on neo-classical thinking: on a global scale, the gap between rich and poor was widening. The collapse of the USSR in 1989, the fall of the Berlin Wall and stunting growth in many former Communist countries dismissed Socialism and the plan economy as a viable alternative for capitalism. But it was in particular the advent of 20/21 globalization – distinctly different
from previous eras of globalization (cf Jones, 2004) – that decisively changed the understanding of the nature, purpose, and determinants of development. The internationalisation of production was no longer conceived as an exogenously-given fact with equal impact on all countries, whilst the international context of development policy became much more important than the national one (Gore, 2000). The technological advances in transport and communication technologies that made 20/21 globalization possible, also increased awareness and understanding of the peoples of the world about both the commonality and diversity of their values, needs and aspirations. This led to a questioning of the means by which poverty and other downsides associated with the contemporary global economy might be contained or resolved.

These important economic and political changes triggered new theoretical views (and empirical evidence) in the area of development studies on what ‘development’ ought to encompass, and how it should be achieved. These views formed the basis of the New Development Paradigm. The combined works of three Nobel Laureates – Joseph Stiglitz, Douglas North, and Amartya Sen – delineate the contours of this paradigm. While each scholar emphasizes different elements, all view development as holistic, multifaceted, yet contextual, and highlight the dynamics of the development process in which means and ends are often interwoven. Table 1 compares the main characteristics of the NDP and the ODP in terms of the means and ends of development, and mechanisms to link these two.

[Table 1 approximately here]

Regarding the ends of development, the roots of the NDP can be traced back to the 1970s, when Amartya Sen (1973) defined the concept of human development as freedom
(encompassing political, economic and social freedom, combined with transparency guarantees and protective security). Development was seen as the process of enlarging people’s choices by expanding human functionings and capabilities. Echoes of this definition can also be found with Stiglitz (1998:3) when he explained that “development enriches the lives of individuals by widening their horizons, [by] increasing lifespans [and] improving the vitality of life.” The inclusion of ecological considerations in the 1980s in the definition of development means that nowadays, development is often seen as ‘sustainable development’ – a term coined in 1987 by the Brundtland Commission – including economic growth, social justice and environmental protection, in order to ‘meet the needs of the present without compromising the ability of the future generations to meet their own needs’ (WCED, 1987:8).

Partly because of its increased inclusiveness, considerable disagreement continues to exist over the definition of development, and the exact level of aggregation at which it might be measured, the time-horizon that should be used, and the role of various actors in achieving it (Kanbur, 2001). Despite these disputes, and despite the NDP notion that development priorities may differ from country to country, there does seem to be an emerging consensus regarding the common elements of development. Stiglitz (1998) identified education, infrastructure, health, knowledge, and capacity building, and noted that a development strategy should be consistent with the natural environment within which it is embedded. Politically, the NDP is reflected in the UN Millennium Development Goals – a set of eight concrete development goals that governments worldwide have committed to achieve by the year 2015 (see box 1).
### Box 1. The UN Millennium Development Goals

<table>
<thead>
<tr>
<th>1. Eradicate poverty and hunger</th>
<th>5. Improve maternal health</th>
</tr>
</thead>
<tbody>
<tr>
<td>3. Promote gender equality</td>
<td>7. Ensure environmental sustainability</td>
</tr>
<tr>
<td>4. Reduce child mortality</td>
<td>8. Develop a global partnership for development</td>
</tr>
</tbody>
</table>

In addition to this much more encompassing perspective on development aims, the NDP critically differs from the ODP in the role it attributes to institutions. In the ODP institutions are virtually absent; in the NDP they are central in the development process. Institutions are defined by North (1991) as the rules of the game that govern the way in which human being structure their (commercial) interactions. They consist of formal and informal rules and (self) regulations, as well as the enforcement mechanisms for those rules. The NDP considers the extent and quality of institutional infrastructure and social capital as one of the main determinants of the success by which countries can create and effectively deploy resources (R) and capabilities (C), and access to markets (M). Ample empirical evidence exists (e.g. Rodrik et al., 2002) to support this claim. This role of institutions in managing RCM relates to both host and home countries, meaning that the NDP also highlights Institutional Ownership-advantages of MNEs, in addition to the traditionally distinguished Ownership advantages related to resources and capabilities (Dunning, 2006). These institutions do not only refer to the traditional ‘business institutions’ such as competition regulation and patent law, but also to the norms and values regarding ethical and responsible behaviour by firms, that may be reflected in formal regulation in the area of social principles or environmental standards, but also informal institutions in the form of stakeholder pressure.
When the dominant view on development changes so significantly that one can identify a paradigmatic shift, it compels academics that study the determinants of development – in International Business, in particular the effect of MNEs on development – to reassess their research agendas in the light of that shift. The main question of this paper is how the reconfiguration of the objectives of development, and the means by which these objectives might be achieved, affects our understanding of the effects of MNEs on host country development? Looking with an NDP lens to the MNE-impact question brings a number of important dimensions in focus that existing research has not yet addressed extensively. First of all, the NDP brings forward a whole range of new development aims, beyond ‘simple’ economic or productivity growth. Second, the NDP emphasizes a yet under-researched ownership advantage of MNEs: its institutional O-advantages. While the first steps are taken to explore more systematically the effect of FDI characteristics on development, limited attention has been paid to the question whether MNEs from different countries impact development differently, due to certain advantages or requirements that they are faced with in their home country that firms from other countries have not. Thirdly, the NDP emphasizes development processes in which a range of market and non-market participants play an active role. This means that the impact mechanisms through which MNEs affect development that are identified by the NDP go beyond ‘traditional’ linkage creation or competition effects, but include a wide range of more active (corporate social responsibility) strategies as well. Each of these three changes in the relationship between MNEs and development due to the NDP perspective will be discussed below in more detail.
THE NDP, MULTINATIONAL ENTERPRISES, AND DEVELOPMENT

The first main consequence of looking with an NDP lens to the MNE impact question is relatively straightforward: it expands the number of ‘dependent variables’ considerably by taking not only economic but also social and environmental goals into account. Yet, the inclusion of these dimensions of development also constitutes several challenges.

The first challenge relates to the measurability of concepts such as social development or environmental sustainability. In contrast to economic growth, the NDP development goals tend to be more ‘fuzzy’. So far, considerable progress has been made though to quantify these aims. If we look again at the UN MDGs, all goals are translated to specific and measurable targets, and an important database is made available through the Millennium project on these dimensions of development. As another example, the concept of human development has been quantified for a number of years in a series of Human Development Reports by the UNDP. In addition, there are arrange of agencies, international organizations and private firms that collect data on for example country competitiveness or Environmental Sustainability (both by the World Economic Forum) or on institutional quality (e.g. World Banks Kaufmann Data), and a range of other issues – although country coverage, data quality and historical availability of the data differs substantially across the various data sources.

The second challenge is much more fundamental, and involves linking conceptually and theoretically, the effect of MNEs for social and environmental goals. For example, how could an investment in an automotive plant affect child mortality (MDG 4)? These effects tend to be of a much more indirect character than simple productivity increases. Further enquiry in this area is necessary. So far though, several organizations have attempted to translate these goals to concrete business actions. For example, the UN Millennium Project (2005), directed by
Jeffrey Sachs, in discussing the contribution of the private sector to the MDGs, identifies primarily, increasing productivity, creating jobs, paying taxes and the supply of necessary goods for reasonable prices. The project also identifies a number of relatively new roles for the private sector such as engaging in public private partnerships and responsible citizenship. The Global Reporting Initiative (GRI, 2004) also aims to link the core activities of businesses to the MDGs. Table 2 summarizes their ideas.

Table 2 shows that the provision of affordable products is seen as a key contribution of MNEs, especially for basic needs such as food, water and medication. This is in essence an economic goal; it requires high productivity and economies of scale. The second element that is emphasized in the table involves labour conditions and employment. A job is considered critical in escaping the poverty trap. Even if wages are low, and labour conditions are far from perfect, having a menial job is often better than no job at all. Data on poverty in Sub-Saharan Africa show consistently that the groups that are least affected by poverty are those that have jobs in the formal sector or at the government. In countries like Burkina Faso, Ghana and Uganda, the percentage of people below the poverty line is higher than 50 in rural areas among subsistence farmers, while approximately 10 percent of those that have a formal job.\footnote{Compare data from the Burkinabè Survey of Household Living Conditions of 2003; the Ghana Living Standards Survey 4; and the Uganda National Household Survey 2003; made available through the World Bank website.}

The GRI also mentioned managing environmental impact as a way in which MNEs could contribute to development, as well as engaging in (public-private) partnerships (which echoes the UN Millennium project, and is also a key example of how institutions are also becoming development aims in themselves).
Knowing in what way MNEs may contribute to the MDGs, what do we know already about those dimensions, and where is further research necessary? While a full review of the academic evidence is outside the scope of this paper (but see Caves, 1996, Fortanier and Maher, 2001, Fortanier, 2004, and Meyer, 2004), three key points may be highlighted.

First of all, despite recent attention for the social and environmental dimensions of development, and the fact that a considerable amount of research on especially the social (wage, employment) effects of MNEs has been conducted, the majority of the literature on the effect of FDI deals with the economic consequences of investments, such as productivity increases or trade balance effects. More research is therefore necessary into the effect of MNEs on these equally important components of development. In particular the ecological effects of FDI have received scant attention: Talukdar and Meisner’s study (2003) is one of the very few that relates FDI to environmental outcomes. They analysed data on carbon dioxide emissions for 44 developing countries in the 1987-1995 period, and found that emissions are reduced with increased shares of foreign direct investment vis-à-vis domestic investment, implying that foreign firms are less polluting than domestic firms.

Such studies on the environmental and social implications of FDI would do well to also consider the second key point, which involves attention for explaining the highly mixed results that are reported regarding the impact of MNEs on virtually all dimensions of development. With respect to the economic impact of MNEs, current research is addressing in particular the role of moderating factors that affect if and when MNEs may contribute to productivity growth. Evidence points in the direction of the role of host country contexts. For example, the higher the technological sophistication of a country or sector, the easier it is for local firms to benefit from foreign firms (Borensztein et al., 1998). Also, a host country’s
openness to trade – a proxy for the extent to which local firms are acquainted, and are able to deal, with foreign competition – importantly determines the extent to which local firms are able to learn from foreign firms (Balasubramanyam et al., 1996) and so increase productivity. And while research is still scant, the characteristics of FDI are also likely to be important moderators (Lall, 1995; Jones, 2005). For example, Mencinger (2003) suggested that the negative relationship between FDI and growth in transition economies can be explained by the form of FDI, which has had been predominantly through acquisitions (of which the proceeds were spent on consumption) rather than greenfield investments. And Kearns and Ruane (2001) found that in Ireland, the scale of R&D activity of foreign affiliates is positively related to job creation rates.

The moderating role of host country characteristics and FDI characteristics in explaining the FDI-development relationship may also be interesting for future research regarding the environmental and social impact of MNEs. With respect to the labour impact of FDI, studies indicate that MNE subsidiaries generally create employment (Görg, 2000), and to pay on average higher wages than local firms in developing countries (Lipsey and Sjöholm, 2004) – either to prevent labour migration or as a reflection of productivity differences (Caves, 1996). Yet little is known if such effects differ in different host country contexts or by FDI characteristics (for example CSR policy). A similar argument can be made regarding the relative wage (the ratio of skilled versus non-skilled wages that generally serves as a proxy for overall income inequality). Since foreign firms tend to hire relatively high skilled labour, they may increase the relative wage (Lipsey and Sjoholm, 2004; Aitken et al 1996), but empirical evidence on this effect is mixed, and differs by host country (Te Velde and Morrissay, 2001; 2002), and industry (Feenstra and Hanson, 1997).
Finally, the NDP renews interest in the debate on the policy effects (policy competition) of the social and environmental dimensions of IB activity. The current consensus is that the risk of relocation of activity towards low standard countries is rather small (e.g., Wheeler, 2001), although in some cases, less stringent employment legislation is in place in Export Processing Zones – specific geographical areas set up by governments to increase local employment, where labour-intensive, low value-added work is undertaken and where many MNEs invest (McIntyre et al 1996). But while there are no indications of a real ‘race to the bottom’ in environmental standards, some evidence exists that competitiveness concerns have dampened governments’ enthusiasm to raise environmental standards (see Nordstrom and Vaughan, 1999). An interesting question here would be to what extent this is still the case considering the changed perspectives on development reflected in the NDP.

INSTITUTIONAL OWNERSHIP ADVANTAGES AND SUSTAINABILITY

The second main consequence of looking with an NDP lens to the MNE impact question relates to the role of institutions. First of all, the NDP designates institutions as a prime dependent variable: a development aim in itself. The most commonly cited example on how MNEs may contribute to institutions would be the financial sector, where for example banks and insurance companies can help in setting up a financial infrastructure and thus promotes entrepreneurship and enterprise creation. The second role of institutions is as moderator in the FDI development relationship. The higher the institutional and governance quality and the better developed a host country’s property right protection, rule of law, and financial systems, the more likely local firms are to benefit from foreign firms (Rodrik, 1999; Alfaro et al., 2004). This is caused by the transaction cost reducing effect of high quality institutions, which facilitates local sourcing and subcontracting. And well-functioning financial markets not only supply capital and promote entrepreneurship, but may also prevent the crowding out of local
firms from the capital market in the case of FDI financed with local borrowing (Harrison and McMillan 2003).

The third way in which institutions affect the MNE development relationship is through their effect on MNE strategy and characteristics. This role of institutions refers what Dunning (2006) has identified as the institutional ownership advantages (Oi) which are competitive advantages derived from the rules regulations and norms form the countries in which a firm operates. The nature of the domestic market and business system, and institutional backgrounds therefore influences a large range of strategic and organizational characteristics of MNEs (North 1991; Wan and Hoskisson 2003; DiMaggio and Powell 1983). While the institutions in all countries in which an MNE operates may contribute to those Oi advantages, the home country institutional context remains important for the large majority of MNEs (see e.g. Harzing and Sorge, 2003), considering both the history of the firm that developed in that country and the large role that home countries still play.

The advent of the NDP has also been reflected in increasingly stronger institutions in the area of CSR. Firms are experiencing pressure by a variety of stakeholders (regulators, NGOs, consumers, trade unions) to behave more responsible and ethical (Van Tulder and Van der Zwart, 2006). The stronger this pressure, the more likely firms are to for example adopt codes of conduct, to create sophisticated environmental management systems, and to publicly report about the results of their non-financial activities. Despite globalization, such institutional pressures often reflect underlying cultures and value systems, and therefore differ substantially across countries. Strong country of origin effects have therefore also been identified for CSR relevant areas like codes of conduct and environmental reporting strategies (Kolk and Van Tulder, 2004), reputation effects (King, Lenox, 2000), the self-representation
of international companies on CSR issues (Maignan and Ralston, 2002), environmental management practices in general and the approach towards specific issues like global warming (Kolk and Levy, 2001). Future research should look in more detail at how MNEs differ in their impact on development from various countries due to different home country institutional pressures and the Oi advantages of firms that are derived from dealing with those pressures.

**MNES AND SUSTAINABLE DEVELOPMENT: IMPACT MECHANISMS**

The third and final implication of the NDP for our understanding of the relationship between FDI and host country development relates to the various mechanisms through which MNE can have an effect on development. For example, the creation of local backward linkages is often seen as very beneficial for local firms, as these linkages may enhance their sales and access to markets, and enables them to benefit from technology transfer and training of the MNE. However, there are many other mechanisms that play a role and need to be addressed when evaluating the host country development consequences of foreign firms, foreign investments and partnerships of MNEs with local firms. Examples of such mechanisms include technology transfer through labour migration or demonstration effects; competition and market structure effects; the sheer size effects of investments; and forward linkages. These have all been identified in the (economic and business) literature on the economic growth consequences of FDI. The NDP however also calls for a more active approach of MNEs in development: both as key partners in the process of societal transformation (Stiglitz, 1998), and in activities related to Corporate Social Responsibility (CSR) activities such as implementation of environmental, health and safety management systems at their production sites, as well as engagement in philanthropic projects.
If we take these less traditional impact mechanisms into account as well, the large variety of mechanisms could be classified along two axes that form a 2-by-2 matrix, as in table 3. The type of effect is positioned on the vertical axis, and the role of the multinational enterprise on the horizontal axis. The type of effect captures the conventional distinction between the direct effects of an investment, which occur solely at the site of the MNE, and the indirect effects, that occur at firms related to the (activities of the) MNE. For example, the workers that an MNE employs itself constitute the company’s direct employment effect; whereas the employment an MNE creates at a local supplier due to increasing demand for this supplier’s products, constitute its indirect effects for employment. The second variable, the role of the multinational, distinguishes between active and passive roles of MNEs. For those effects that occur without the MNE purposely striving to contribute to sustainable development, we ascribe a passive role for a firm; but when an MNE actively tries to beneficially affect sustainable development (though for example CSR related activities, or philanthropy), it assumes an active role. In reality, these four groups of mechanisms may not be so stringently separated – for example, the environmental management practices of a foreign MNE (direct, active) may spillover to local firms (indirect) without explicit training by the MNE (passive) – they are useful for analytical purposes.

[table 3 approximately here]

**Passive effects**

The passive effects of an MNE for host country development are relatively well documented, (again) especially for the economic dimensions of development. Direct passive effects occur when an investment by an MNE adds to the host country’s savings and investment volume, and thereby enlarges the production base at a higher rate than would have been possible if a host country had to rely on domestic sources of savings alone. FDI may thus build up sectors
or industries in which local firms have not (yet) invested in, or enlarge the scale of existing farms, plants or industries. Positive direct effects may also lie in salvaging and recapitalizing inefficient local firms (Lahouel and Maskus, 1999), thereby assuring that the scale of production at least not decreases. Direct passive effects can be measured rather easily: it is the net increase or decrease in output and productivity, employment (quantity and quality), and pollution, at the site of the MNE investment.

The *indirect* passive effects are those effects of inward investment that are generally designated as ‘spillovers’ or ‘multiplier effects’ in the economic literature. For example, linkages with buyers and suppliers are an important means through which MNEs can impact upon economic growth, since it is unlikely that MNEs can fully appropriate all the value of explicit and implicit knowledge transfers with their host country business partners (Blomström et al., 1999). Many empirical studies have found evidence of the creation of both backward linkages (e.g. Alfaro and Rodriguez-Clare, 2004; Javorcik, 2004; McIntyre et. al., 1996), and *forward* linkages (Aitken and Harrison, 1999).

In addition, an investment of an MNE changes the market structure of the industry. Such investments can stimulate competition and improve the allocation of resources, especially in those industries where high entry barriers reduced the degree of domestic competition (e.g. utilities). Fears are sometimes expressed that MNEs may also crowd out local firms, which in does not have to be problematic if they are replaced by more efficient firms, but that could also increase market concentration to such an extent that resource allocation could diminish (Cho 1990). From a political and social view point, it may also be seen as undesirable.
Finally, since MNEs are frequently key actors in creating and controlling technology (Markusen 1995, Smarzynska 1999), they can be important sources for spreading managerial skills, and expertise on products or production processes – either intentionally or unintentionally – to host-country firms (Blomström et al., 1999).

**Active Effects**

In addition to the passive effects of investments – those effects that occur through ‘standard business practice’ – the active, or CSR effects of MNEs have received increasing attention. Partly driven by regulatory and stakeholder pressures, MNEs are taking action in order to contribute to sustainable development (KPMG, 2005). This could have important implications for the development effects of FDI. As with the passive effects of investments, the active role of MNEs in fostering development can be divided into direct effects – that occur at the facilities of the MNE themselves – and indirect effects – that occur externally.

The direct active effects encompass the environmental, health and safety, and employment practices of a multinational at its subsidiaries. Recent studies (KPMG, 2005; Fortanier and Kolk, 2007) show that approximately 70 percent of the largest 250 firms worldwide are actively promoting workforce diversity and equal opportunity, good working conditions, and training. A similar number of firms addresses climate change issues and direct greenhouse gas emissions. Labour rights such as collective bargaining and freedom of association are mentioned by one third of all firms.

An increasing number of large firms is also formulating and reformulating individual codes of conduct, thereby actively creating new international institutions, that create in many respects new rules of the game – also with regard to issues relevant to sustainable development such as child labour, environmental degradation and the rights of indigenous peoples (Kolk and Van
Tulder, 2005). A study into the MDG related activities of the largest Dutch public companies found that no company supports all MDGs. Most popular are the educational and health related MDGs (supported by around 1/3 of all companies). Poverty is addressed by one out of five companies, whilst maternal health, the environment and hunger only get attention by one tenth of the companies (cf. Kostwinder, 2006).

In addition to engaging in CSR activities within a firm’s boundaries, MNEs have also started to contribute to society in a more indirect way (i.e. outside their own facilities) through philanthropy and community investments, or through requiring their suppliers to adhere to social and environmental standards as well. The KPMG (2005) study showed that 75% of the largest 250 firms worldwide say to be involved in philanthropic activities; and almost 50% has an own corporate charitable Foundation. Schooling and educational projects are most popular to contribute to (66%, followed by health programs including HIV/AIDS relief efforts (40%). These corporate philanthropy activities signal the growing acknowledgement of the importance of ‘social capital’ and of civil society for the correct and profitable operation of business (Cf. Wood et al. 2006). Philanthropy is increasingly thereby represented as a vital aspect of (global) corporate citizenship (Saiia et al., 2003). According to Zadek (2003) MNEs are entering the phase of ‘third generation corporate citizenship’ which represents a far more active and open approach to civil society than before.

**DIRECTIONS FOR FURTHER RESEARCH**

This paper explored the implications of the New Development Paradigm – or the new ‘consensus’ on what development is and how it should be achieved – for the research agenda concerning the effect of one of the key actors in development in many developing countries: the multinational enterprise. Bringing together the extensive literature on the impact of MNEs
with the emerging field of CSR research, we have been able to identify three main avenues for future research, that each constitute of a range of research questions and themes.

First of all, the NDP suggests that instead of solely economic growth, the concept of development involves a much wider range of aims including social and ecological ones. The majority of research on the IB impact remains however focused on the economic dimensions. Expanding this research to social and environmental dimensions would importantly improve our understanding of the MNEs development impact and the potential trade-offs in development impact that has often fueled the NGO critique on globalization. Problems with respect to measuring these often more ‘fuzzy’ social and ecological concepts are rapidly disappearing as more extensive datasets are becoming available. But more work is required at the theoretical level regarding the exact indirect mechanisms through which MNEs contribute aims such as combating illiteracy, hunger, and child mortality. We have seen that contributing to job creation is considered key by certain policy organizations in the field, but it may be that especially the active impact mechanisms (CSR activity) are important in determining the ultimate impact of MNEs on these aims. Finally, the recent fruitful exploration into the country and MNE specific factors that moderate the FDI-economic growth relationship could also be translated to similar studies for social and environmental impact.

Secondly, the NDP highlights the role of institutions. Institutions can impact all elements of the FDI-development relationship; each of which merits more research: 1) first, institutions are key dependent variables or dimensions of development; 2) secondly, host country institutions are important moderators of the MNE-development relationship; and 3) finally, institutions – particularly those in the MNE’s home country – are important in contributing to the Ownership advantages ($O_i$) of MNEs, and can hence strongly affect MNE strategy and
characteristics, and ultimately development impact, of multinational enterprises. Also the combination of these three roles of institutions yields interesting questions for further research. For example, to what extent is it institutional distance between home and host country, rather than the institutional quality in the host country, that generates positive spillovers from FDI?

Thirdly, the NDP highlights that MNEs affect sustainable development through a much wider variety of mechanisms than traditionally distinguished. In particular the effectiveness of the more active roles of MNEs – which refers to CSR activities both directly at the MNE site, as well as indirectly at other organizations – merits more research attention. Do firms that engage in CSR contribute more to host country development? And what are the consequences for the development impact of MNEs if they strongly prefer to focus on certain themes (in particular education, and health – HIV/AIDS problems), at the costs of others? Many of these answers could be strongly sector-specific. Certain sectors have a special impact (and hence are increasingly seen as especially responsible) for a particular dimension of development. These are basic needs providers – food and beverages firms and pharmaceutical companies – but also firms that contribute to building infrastructure (construction firms) and that are active in utilities (water, electricity), or that could contribute to institutions building, such as financial firms.
REFERENCES


Velde, D. Te, & Morrissey, O. 2002. Foreign direct investment, skills and wage inequality in East Asia. Paper for DESG conference in Nottingham, April.


Table 1. Comparing the ODP and the NDP

<table>
<thead>
<tr>
<th>Development means</th>
<th>ODP</th>
<th>NDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Development means</td>
<td>Natural factor endowments (R)</td>
<td>Resources; capabilities; entrepreneurship and markets (R, C, M)</td>
</tr>
<tr>
<td></td>
<td>Little attention for capabilities (C), created assets</td>
<td>Institutions and institutional infrastructure (In)</td>
</tr>
<tr>
<td></td>
<td>Limited role of government and incentive structures (In)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Limited attention to process or dynamics of development</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Development ends</th>
<th>ODP</th>
<th>NDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Development ends</td>
<td>Mainly economic</td>
<td>Development as freedom</td>
</tr>
<tr>
<td></td>
<td>Limited attention for public goods/bads</td>
<td>Human development</td>
</tr>
<tr>
<td></td>
<td>Means (working conditions) not part of ends</td>
<td>Sustainable development</td>
</tr>
<tr>
<td></td>
<td>Limited attention for ownership, sovereignty, equity, justice, human rights, environment, security</td>
<td>New priorities like relief of poverty, women’s rights, health care, quality of life, education, environment</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Relating means and ends</th>
<th>ODP</th>
<th>NDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relating means and ends</td>
<td>Monocausal and unidimensional</td>
<td>Multicausal and multifaceted</td>
</tr>
<tr>
<td></td>
<td>Static (single equilibrium models)</td>
<td>Holistic and dynamic</td>
</tr>
<tr>
<td></td>
<td>Most government action assumed to be distorting</td>
<td>Non-market institutions/organizations can be major enablers</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Prime actors/ Stakeholders</th>
<th>ODP</th>
<th>NDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prime actors/ Stakeholders</td>
<td>Market participants, shareholder capitalism; limited role of non-market actors</td>
<td>Markets, governments, civil society, supranational entities, participation and local ownership</td>
</tr>
</tbody>
</table>

Source: adapted from Dunning, 2006.
### Table 2. The contribution of firms to the MDG according to GRI

<table>
<thead>
<tr>
<th>MDG</th>
<th>Core Business Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Eradicate poverty</td>
<td>Affordable products and prices, building local linkages and employment opp.</td>
</tr>
<tr>
<td>2. Achieve universal primary education</td>
<td>Tackle child labour; deliver educational services; harness technology for education</td>
</tr>
<tr>
<td>3. Gender equality</td>
<td>Diversity and equal opportunity in workforce and eliminating workplace violence</td>
</tr>
<tr>
<td>4. Reduce child mortality</td>
<td>Provide affordable products: medication, food, clean water</td>
</tr>
<tr>
<td>5. Improve maternal health</td>
<td>Provide affordable products (medication, food, clean water), improve working conditions for women</td>
</tr>
<tr>
<td>6. Combat HIV/AIDS</td>
<td>Provide affordable products (medication, food, clean water), workplace programs</td>
</tr>
<tr>
<td>7. Environmental sustainability</td>
<td>Understand and address direct environmental impacts; invest in tech and innov.</td>
</tr>
<tr>
<td>8. Partnership for development</td>
<td>Support global compact; ensure employability; low cost access to R&amp;D, patents (cheap medication); low cost ICT</td>
</tr>
</tbody>
</table>

### Table 3. Mechanisms through which MNEs affect sustainable development

<table>
<thead>
<tr>
<th>Type of effect</th>
<th>MNE Role</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Passive</td>
</tr>
<tr>
<td>Direct (at MNE site)</td>
<td>Size effects (for capital base, employment, environment)</td>
</tr>
<tr>
<td>Indirect (beyond MNE site)</td>
<td>Competition, technology transfer, linkages, alliances</td>
</tr>
</tbody>
</table>