The Role of the MNE in Inclusive Economic Growth
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Introduction

The role of multinational enterprises (MNEs) in the economic development of developing countries has long been, the topic of international business research. As the millennium development goals (MDGs) have evolved into sustainable development goals, there has been a renewed focus on sustainable development and the successes and failures of the of the MDGs. Increasingly, there has been discussion of the role of MNEs in the context of development, particularly on the extent to which they are aligned with a host country’s development agenda. As the focus in the global development community has turned from just economic development to sustainable economic development, and considering that sustainable development will soon be defined by a broad, consensus-built set of sustainable development goals, this role continues to be both of interest and important.

The original plan for this paper was a comprehensive examination of the ability of (primarily, but limited exclusively to) Western MNEs to help developing countries attain socially inclusive and sustainable economic growth, addressing how an MNE’s operations in the pursuit of its own profitability and competitiveness perhaps can be the best mechanisms to promote sustainable economic growth in developing countries. Such elements as capacity building, supply chain management, knowledge transfer, and coalition building (between firm and host country sectors) were to be important aspects of the paper. Systems of governance that influence the interactions between an MNE and the host countries in which it operates were to be reviewed as well. It was, to put it mildly, an ambitious project, one that has proven to be easy to envisage but more difficult to complete, mostly because the research on the relationship between MNE activity and host country economic growth is extensive, varied, and, interestingly, somewhat inconclusive. Another purpose of the paper was to link the UN’s Sustainable Development Goals view of inclusive economic growth to MNE actions, but this is a topic that has only recently generated interest.

As a result, the paper has turned into an essay that, rather than examining whether or not MNEs are contributing to inclusive and sustainable economic growth in their (developing) host countries, will instead discuss how MNEs can contribute to inclusive and sustainable economic growth. Inclusive in this context is guided by the Goal 8 of the UN’s Sustainable Development Goals: “Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all”, where ‘inclusive’ essentially means everyone benefits. The essay is divided into topic sections related to the ways in which MNEs might best support inclusive and sustainable economic growth. These topics are: (1) MNE self-interest as a driver; (2) the role of capacity building; (3) the role of supply chain management; (4) the role of knowledge transfer; and (5) the role of coalition building.
MNE Self-Interest as a Driver

The idea that an MNE can ‘do well by doing good’ is not new and has been used as rationales for why MNEs should engage in corporate social responsibility (CSR), poverty alleviation activities and programs that support local economic development. The self-interest aspect for MNEs falls into a few of areas. First, it can be good for a company’s image and reputation (indeed, many MNEs showcase their CSR activities and accomplishments in separate annual reports). Arguments can be (and are being) made that the relationship between favorable reactions to a company’s CSR and its stock price is positive, and more studies are being made relating CSR to overall company performance. Second, it could be a way to avoid or forestall regulations in a host country that could restrict the MNE's activities. And third, supporting local economic development can be good for business by helping to create new markets for the MNE’s goods or services. If what the MNE is doing in the host country is related to its supply chain, there could be upstream benefits that include better quality, higher efficiency, or even reduced costs.

The Role of Capacity Building

Let’s look at two widely accepted definitions of capacity building: (1) Planned development of (or increase in) knowledge, output rate, management, skills, and other capabilities of an organization through acquisition, incentives, technology and/or training; and (2) the process of developing and strengthening the skills, instincts, abilities, processes and resources that organizations and communities need to survive, adapt, and thrive in the fast-changing world. The first has more of a business context, and can be thought of as increasing the firm’s ability to do things ‘better’, with the aim of improving its competitiveness. The second really does not differ much from the essential meaning of the first, but broadens it to include communities. With respect to the relationship between an MNE and a host country, capacity building usually is considered flowing from the MNE to the host country’s institutions. The extent to which this happens can be ‘accidental’ (through spillover effects), as a result of competition (local institutions trying to improve to be better able to compete against the MNE), or purposeful (the MNE makes a concerted effort to improve local capacity because it feels it is in its own best interests to do so).

For an MNE to support inclusive and sustainable economic development in its host country, it ideally should embrace the second definition, and make local capacity building a purposeful action. Exactly what kind of capacity would be improved (e.g., knowledge, management, skills, technology, etc – all aspects of the first definition) would be determined by a combination of what the MNE thinks works best for itself, local conditions, and consultations with local constituencies. This latter point means that capacity building becomes a cooperative and collaborative effort.

The Role of Supply Chain Management

The importance of supply chains to an MNE’s operations should not be underestimated; they not only are vital to the ability of the MNE to produce competitive goods and services, they also have a large impact on an MNE’s cost structure. It is increasingly being recognized, too, that supply chains are vulnerable when the effects of resource constraints and the effects of climate change (consider a food company, for example) are factored in. As a result, how an MNE manages its supply chains might be crucial to how capable it is in adjusting to the uncertain operational changes resource constraints
and the effects of climate change create. In addition, many MNEs are looking at ways in which they can reduce their emissions of greenhouse gases, cut down on waste, pollute less and in general be more environmentally ‘friendly’ by paying attention to what is happening throughout their supply chains. (Note: some of this attention is being mandated through legislation, such as those pertaining to natural resources accessed in conflict areas.)

Tying better supply chain management to supporting local inclusive and sustainable economic growth implies that MNEs’ efforts to improve their supply chains will as a matter of course improve local operations, and those locations that can meet best the MNEs’ supply chain requirements will have a competitive advantage. The search for competitive advantage among locations (host countries) will be an incentive for less competitive hosts to improve. But this does not mean that the burden of making the host a ‘better’ supplier (from the point of view of the MNE) falls on the host; MNEs certainly can choose to help their local suppliers (through, for example, capacity building). Nor does this mean that supply chain improvements only flow from the MNE to the host; as more research on the role of supply chain management on sustainability is being made, the more evidence is being uncovered that good supply chain management lessons can flow back to the MNE.

The Role of Knowledge Transfer

For the purpose of this essay, knowledge transfer will be defined as the exchange of ideas, business processes and technology with the objective of the overall improvement of a firm’s business operations and hence its competitiveness. As such, it resembles capacity building in the context of how an MNE can assist in inclusive and sustainable economic growth in a host country. As with capacity building, knowledge transfer can be accidental (local firms copy what the MNE does), the result of competitive pressures (local firms figure out how to access or acquire the knowledge on their own), or purposeful (the MNE makes knowledge transfer part of its business model in the host country).

While it can be argued that the host will be better off regardless of how the knowledge transfer occurs, just as with capacity building it would be more ideal if the MNE made knowledge transfer a purposeful part of its business model with its partners in the host country. (The MNE can, of course, choose what knowledge it wants to transfer.) The reason for this is that if the transfer of knowledge is part of the MNEs business model, then it will have a more vested interest in how the knowledge is used and implemented. It also means that the knowledge transfer will not just be a ‘one and done’ thing; as new knowledge is generated it will naturally flow to its host country partners. Thinking of entities with which the MNE does business in the host country as partners also opens up lines of communication, which means that knowledge transfer can flow from the MNE to the host partner(s), from the host partner(s) to the MNE, and even across partners. Considering that lessons about how best to cope with climate change can come from virtually anywhere, the ability of an MNE to access those lessons from virtually anywhere and then transfer them anywhere can provide a distinct advantage.

The Role of Coalition Building

Coalition building in the context of the MNE-host country (or host country institution) relationship means that the MNE and the host country are working cooperatively toward
a common set of goals, in this case home country inclusive and sustainable economic growth. Each has a shared commitment to achieve the desired outcome, a shared view of what that outcome should be, and a shared strategy about how the outcome is achieved. All sides realize the benefits that can be derived from the coalition, and all have identified the success of the coalition as integral to their own self-interest. As such, it really combines self interest as a driver, the role of supply chain management, the role of capacity building, and the role of knowledge transfer, but in a powerful, cohesive way.

Building coalitions to achieve inclusive and sustainable economic growth, then, can be seen as perhaps the essential role for an MNE if it decides to adopt as part of its business model the implementation of the UN’s Sustainable Development Goals as they pertain to inclusive and sustainable economic growth.

Coalition building also implies a different kind of mindset with implications for how the MNE is managed and governed, and it is to governance that the essay now turns.

**Inclusive and Sustainable Economic Growth and Governance**

It is impossible to ignore that the MNE-host country relationship is affected by governance structures in the MNE, the MNE’s home country, and the host country, but to do them credit, addressing each of those governance structures easily could require three separate papers. Suffice it to say that various systems of governance are involved, including national and international regulatory institutions, public and private governance systems, and the partners and relationships among MNEs, governments, and NGOs (which have not even been mentioned in this essay).

Originally, part of this presentation included an attempt to answer this question: What kind of governance structure can best encourage, support and implement inclusive economic growth? Private firm governance in the context of the UN’s Sustainable Development Goals was the topic of another presentation at this conference, and it raised more questions than answers. Basically, that question is one that is a long way from being resolved. It is safe to say, however, that the governance structure that will best support inclusive and sustainable economic growth is one in which all parties with a stake in that economic growth will have strong representation and a powerful voice. Such a governance structure may also require a different mindset in which the interests represented may well be an amalgam of the MNE, the governments in all the host countries in which it operates, the various constituencies with which it has a relationship in those host countries, its home country government, and all the various constituencies with which it has a relationship in the home country. In essence, the MNE will be governed by a coalition, which suggests, then, that the best governance structure that will support inclusive and sustainable economic growth is one that grows out of coalition building.