Inequality of opportunities in multinational enterprises

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CHAPTER 01

Introduction

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"There comes a point where we need to stop just pulling people out of the river. We need to go upstream and find out why they're falling in."

Desmond Tutu

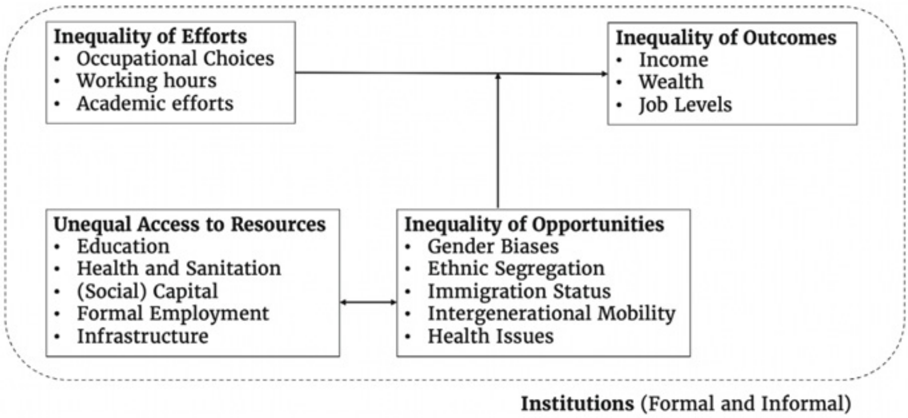
Inequality has been at the heart of socio-economic thought for centuries and has concerned famous economists such as Adam Smith (1776), Karl Marx (1867) and more recently Paul Krugman (2007a), Joseph Stiglitz (2012) and Thomas Piketty (2014). The potential of the multinational enterprise (MNE) to impact inequality, either positively or negatively, was a key preoccupation in the early International Business (IB) literature as well. This preoccupation in the IB literature was largely limited to addressing the causes of inequality between developed and developing countries. Gradually, the discourse shifted to a predominantly positive view of foreign direct investment (FDI) as a driver of global economic convergence between countries. In recent years, however, scholarly attention has shifted to inequalities within countries, amid growing public discontent that the benefits of globalization have excluded significant swathes of society. Although still largely focused on inequality of outcomes (i.e., in terms of income inequality), the IB literature has now also begun to consider the effect of MNEs on inequalities more broadly. This ties into a growing stream of research in development economics, which has emphasized that a narrow view of inequality – i.e., the thinking in terms of monetary outcomes – inhibits our understanding of why some individuals are ending up at the bottom percentiles of the income distribution, while others end up at the top. In the words of Desmond Tutu, going upstream, to understand the antecedents of inequality of outcomes, might help us understand why we continue to observe high levels of poverty and inequality.

This chapter introduces the key antecedents of inequality of outcomes; inequality of efforts and inequality of opportunities. This is followed by a discussion of the literature on MNEs and inequality in respectively economics (section 1.2) and IB (section 1.3). In section 1.4, I present the arguments for adopting the inequality of opportunities view when studying the impact of MNEs on inequality. This is followed by an overview of the aim and outline of the empirical chapters in the dissertation in section 1.5.

1.1 The antecedents of inequality

The ground-breaking work pioneered by (among others) Nobel-prize winners Amartya Sen (1999), Abhijit Banerjee and Esther Duflo (2011) in development economics has emphasized that our understanding of income inequality and its persistence requires a critical understanding of its causes. In other words, income inequality is an outcome, and to make any headway in addressing it, we must understand its causes. Following this line of enquiry, this dissertation explores the differential effect MNEs have on the causes of inequality. In order to do so, it builds on the insights from development economics, where a crucial distinction has been made between inequality of outcomes, inequality of efforts, and inequality of opportunities – concepts further explained below (see also Figure 1.1). In doing so, the role of institutions also comes to the fore, as indeed it has in the IB field more generally.

Figure 1.1 Determinants of inequality of outcomes



Inequality of outcomes describes the situation where “individuals do not possess the same level of material wealth or overall living economic conditions” (UN, 2015, p. 1). Inequality of outcomes thus focuses on how uneven the distribution of individuals is in terms of where they “finish”, usually measured in terms of wealth, income or job levels. While viewing inequality from this angle has dominated not only the IB but also much of the economics debate, and is reasonably straightforward to measure and comprehend, it does not consider the underlying economic, demographic, and social dynamics which result in the observed inequality of outcomes (Lefranc et al., 2008). Over the past decades, development economists have therefore focused on the antecedents to *inequality of outcomes*, which they have classified as *inequality of efforts* and *inequality of opportunities*.

Inequality of efforts is concerned with the choices individuals make as to which outcomes to pursue and how much effort to dedicate to these ends. Individuals tend to have different preferred outcomes. While poverty is unlikely to appeal to anyone, not everyone is solely driven by the desire to accumulate wealth and income. Some may choose to accept a lower income to obtain a PhD rather than go on the job market after finishing their master's degree, while others may prefer spending their savings on a holiday rather than investing in the stock market, or prefer safer working conditions over hazard pay (Lefranc et al., 2008; Marrero & Rodríguez, 2013; Phillips, 2004). Inequality of outcomes resulting from inequality of efforts are thereby within the scope of individual control and choice (Roemer, 1993).

In contrast, *inequality of opportunities* encompasses the factors affecting inequality of outcomes beyond heterogeneity in individual choices. It can be understood as the inequality in barriers individuals encounter, outside of their control, in achieving their desired outcomes (Ferreira & Ravallion, 2009; Marrero & Rodríguez, 2013). This inequality of opportunities can be related to a number of individual characteristics and social circumstances, such as gender, ethnicity (including but not limited to race, caste, being a member of an indigenous group or tribe), immigration status, health challenges and intergenerational immobility such as class and parental income (Bourguignon et al., 2007; Lefranc et al., 2008; Sen, 1999; UN, 2015). Inequality of opportunities moderates how effort is rewarded in terms of outcomes. Even with equal resources and effort, discriminatory practices can result in inequality of outcomes. This includes, for example, the commonly observed phenomenon that women and ethnic minorities do not receive the same pay and job opportunities as equally performing men of the majority ethnicity (Ramos & Van de Gaer, 2016). Moreover, inequality of opportunities inhibits access to the resources required to achieve desired life outcomes. The seminal work of Abhijit Banerjee and Esther Duflo (2007; 2011) uncovered the large scale and scope of disadvantages individuals born in unprivileged circumstances have in terms of access to resources, compared to more privileged individuals. Without access to, for instance, quality education, nutrition, health care, formal employment, (social) capital, and infrastructure (e.g., in rural areas), individuals are restricted in achieving their desired life outcomes, resulting in heterogeneity in outcomes.[1]

As inequality of opportunities is related to morally arbitrary personal characteristics and is therefore generally considered unjust, it has been at the forefront of contemporary social and political debates. Inequalities arising from inequality of efforts are generally not considered offensive. Societies generally do not strive for perfect equality, as in a totally equal distribution of outcomes, but for a distribution resulting from efforts being rewarded equally, so that only disparities in outcomes due to differences in efforts remain (Ramos & Van de Gaer, 2016). This centrality of the ethical distinction between inequality within and beyond individual choice is fundamental to Rawls' (1958, 1971) theory of justice and Sen's (1980, 1999) capability approach, from which the concept of inequality of opportunities is derived.

Inequality of opportunities is universally accepted as undesirable as demonstrated by its inclusion in the Sustainable Development Goals (SDGs, specifically SDG #10), in which eliminating discriminatory laws, policies and practices to ensure equal opportunity is explicitly formulated as a target. According to the United Nations (2019) Human Development Report, reducing inequality is a *sine qua non* to most of the other SDGs. Eliminating poverty and hunger, improving access to health care, education and sanitation are all unachievable when such efforts exclude those who are most disadvantaged. Inequality of opportunities is thus considered the most relevant type of inequality, from both an ethical and development perspective.

[1] Roemer (1986) argues that talent is a heterogenous (and non-transferable) individual resource which also affects inequality of outcomes. Whether, and to what extent should society seek to compensate individuals for inequality in this resource is an interesting one from a philosophical and political point of view, but it is outside of the scope of firm influence and therefore outside of the scope of this dissertation.

Empirically, economists have estimated the significance and size of inequality of opportunities at the individual level by examining how personal characteristics effect income. The proportion of inequality of outcomes explained by inequality of opportunities ranges between 2% in Denmark (Marrero & Rodríguez, 2013) to 56% in Ghana (Brunori et al., 2019). The pivotal sources of inequality of opportunities in these studies are gender (Checchi & Peragine, 2010), race or ethnicity (Bourguignon et al., 2007; Brunori et al., 2019), age, immigrant status (Suárez Álvarez & López Menéndez, 2021), and parental education, occupation and income (Bourguignon et al., 2007; Marrero & Rodríguez, 2013). The most relevant source of inequality of opportunities has been found to vary considerably depending on the country considered. For instance, while immigrant status explains more than half of the inequality of opportunities observed in Austria (Suárez Álvarez & López Menéndez, 2021), gender is a key driver of inequality of opportunities in Italy (Checchi & Peragine, 2010). Taking a different approach, Milanovic (2015) found that the most significant source of inequality of opportunities between individuals was the country they were born in.

These major differences in inequality of opportunities between countries reflect the large effect *institutions* have on inequality of opportunities and outcomes. Even though the exact definition of institutions varies within the IB literature, there is general consensus that institutions encompass the external environment in which MNEs are embedded, both in terms of formal institutions such as rules and regulations, and informal institutions which include "softer" dimensions such as culture and social structures. Institutions are usually considered at a national level (Jackson & Deeg, 2019; Kostova et al., 2020).

With regards to inequality, formal institutions actively intervene ex-ante in how effort translates into outcomes, and in the redistribution of incomes ex-post (Ramos & Van de Gaer, 2016). There are numerous government interventions that have a significant effect on inequality. Economists, most notably Rawls (1971) and Sen (1980), have argued that given inequality of opportunities is both unethical and heterogeneous, the goal of these interventions should be to compensate individuals for the effects that inequality of opportunities has on their life outcomes. Most prominently, governments use taxes and labor market regulation to redistribute incomes and set (minimum) wages. Moreover, unions and other labor-oriented NGOs actively advocate for these regulations, and directly negotiate wages and collective bargaining agreements with firms (or industry) representatives (Jaumotte & Osorio, 2015; Western & Rosenfeld, 2011).

Informal institutions affect the antecedents of inequality of outcomes as well. Many sources of inequality of opportunities, such as gender biases and ethnic segregation, are deeply rooted in informal institutions such as cultural beliefs and social structures. These social biases and structures also contribute to unequal access to resources. Many governments have designed policies to actively address these inequalities caused by informal institutions (Adams & Luiz, 2022). Broadly speaking, institutions have both a direct and an indirect influence not only on the inequality of outcomes, but also on its antecedents, inequality of opportunities and inequality of efforts, as well as the relationship between them. Institutions may, for instance, also affect the effort individuals exert. An example are gender norms and stereotypes, which may shape women's career ambitions (Hermans et al., 2017).

1.2 Debate on FDI and inequality in the economics literature

While the debate on the antecedents of inequality of outcomes has mostly been amongst development economists, another related debate was taking place in the field of international economics. International economists, too, have been concerned with the increasing income inequality many countries have experienced. Their focus, however, has been on how globalization – the growing interdependence of locations and economic actors across countries and regions often operationalized in terms of global trade and FDI (Collinson et al., 2021) – has contributed to this phenomenon. As the divergence of incomes within countries has coincided with a rapid increase in globalization it is no surprise the overall consensus amongst economists has been that globalization has, at least to some degree, contributed to increasing income inequality (e.g., Bourguignon, 2015; Krugman, 2007b; Maskin, 2015; Milanovic, 2016; Ravallion, 2018; Stiglitz, 2012). There is, however, no conclusive evidence on the exact cause-and-effect association between the pace of globalization and the rising inequality within countries. This is due to the complexity of the underlying mechanisms in combination with a wide array of other technological, political, and economic developments which have also been identified as potentially playing a role (Helpman, 2018).

The hypothesis that globalization and within-country income inequality are related is not new: the Heckscher-Ohlin-Stolper-Samuelson (HOSS) general equilibrium model of international trade, published in 1933 and extended in 1941, first formalized this relationship (Ohlin, 1933; Stolper & Samuelson, 1941). The HOSS-model predicted trade to lead to an increase in demand for the production factors a country has in abundance (Krugman & Obstfeld, 2011). In most developing countries this production factor was (and remains) unskilled labor. The model predicted international trade would make relative demand for unskilled workers go up, and subsequently raise their relative wages. In 1995, Krugman et al. stressed that the HOSS-model is a general equilibrium model and the effect of trade on inequality is thus expected to hit a limit when full specialization between countries is reached. However, in 2007, Krugman revisited his earlier prediction and observed “what has happened instead is that the limit keeps being pushed out” (Krugman, 2007b, p. 2) as the global fragmentation of production creates ‘new’ labor-intensive industries.

The role of FDI as the driver of the fragmentation of production has now moved to the forefront of the discussion on globalization and inequality in economics (Dorn et al., 2018; Stiglitz, 2012). Economists have increasingly focused on the role of MNEs rather than governments (i.e., trade policy) as drivers of globalization. To explain macro-level relationships between globalization and within-country inequality, they now assume MNEs to play a key role in orchestrating the ‘new’ and traditional labor-intensive industries and global value chains (GVCs) by making idiosyncratic decisions on which parts of their value chains to “make” and which part to “buy” internationally based on the price and productivity of labor (Greenaway & Kneller, 2007; Kaplinsky, 2000). In this context, trade and FDI can be both substitutes and complements, as the fragmentation of value chains through FDI has led to a significant increase in intra-firm and intra-GVC cross-border trade. Intra-firm and intra-GVC are now estimated to account for two thirds of global trade (Greenaway & Kneller, 2007; Laffineur & Mouhoud, 2015; Owens & Zhan, 2018).

Milanovic (2016) has posited that the move of labor-intensive industries across borders though FDI and GVCs displaces relatively low-skilled jobs from the developed world to more labor abundant lower-wage countries, driving up within-country inequality in developed countries. He has suggested that this dynamic has simultaneously contributed to the rise of developing country middle classes, especially in Asia, and has thereby driven down between-country inequality. Bourguinon (2015) has suggested it reasonable to assume that due to globalization, "over the last decade, roughly 20% of the drop in inequality between countries has been compensated for by an increase in within-country inequality. A process of 'internalizing' global inequality within national borders may thus take place; inequality between Americans and Chinese is partly replaced by more inequality between the rich and the poor in America and China" (Bourguinon, 2015, p. 38).

Bourguinon (and other economists, including Piketty (2014) and Ravallion (2018)) has however stressed there are many contributing factors with complex causal links in this relationship, including the tax and labor market liberalization that many countries legislated alongside trade and investment liberalization.

In summary, international economists have thus explicitly considered the link between income inequality and trade and FDI. However, they primarily approach the globalization-inequality nexus from a macro-perspective. While studying macrolevel outcome variables (e.g., Gini coefficients, Gross Domestic Product (GDP) per capita, trade and FDI flows), their relationships, and the role firms play in this context, has provided many insights and has advanced international economics theory, this line of research does not, generally, consider the underlying employee- and firm-level dynamics related to the observed inequality.

1.3 Debate on MNEs and inequality in the IB literature

The field of IB is concerned with a specific type of firm: the multinational enterprise. MNEs have been defined as "firms that engage in value-added international business activities, have affiliates in more than one country, and whose operations and activities in different locations are actively coordinated by one or more headquarters organizations" (Collinson et al., 2021, p. 18). As it is this type of firm that primarily engages in FDI, they are therefore a key actor through which globalization may translate into inequality most directly (Doh, 2019; Rygh, 2021).

Building on transaction cost economics (Coase, 1960), IB scholars have explained why firms engage in FDI, and why MNEs exist, by emphasizing their superior efficiencies (i.e., lower transaction costs compared to arm's-length market transactions) in the cross-border exchange of products and services (Buckley & Casson, 1976; Hennart, 1982; Narula et al., 2019). IB scholars have identified firm-specific (or equivalent ownership) advantages as a key prerequisite for operating abroad. Firm-specific advantages (FSAs) are those of the MNE's resources and capabilities that provide a competitive advantage over domestic firms (i.e., firms with no foreign subsidiaries or foreign ownership) in host countries. These advantages are essential to MNEs, because they are needed to overcome the initial disadvantaged position of MNEs due to their unfamiliarity with the foreign environment (known as the "liability of foreignness" (Johanson & Vahlne, 2009; Zaheer, 1995)) and inferior networks, knowledge and experience in the foreign market (known as the "liability of outsidership" (Johanson & Vahlne, 2009; Schweitzer, 2013)) compared to domestic firms (Narula et al., 2021; Rugman, 1981). Where firms choose to engage in international economic activities is a function of how their FSAs are complemented by the locational characteristics of their home and potential host countries.

The firm-level characteristics and dynamics of MNEs are highly relevant to understand the effect of MNEs on inequality. Research in organization studies and sociology has established that, as employment and wages are circumscribed by firms, firms play a critical role in aggravating and mitigating the types of inequality development economists would qualify as inequality of opportunities (Amis et al., 2020; Bidwell et al., 2013; Bapuji et al., 2020; Leana et al., 2012). Specifically, human resource management (HRM) practices in terms of "how people gain employment, are promoted and compensated, and what enables and hinders upward mobility within organizations" (Amis et al., 2020, p. 195) have been identified as a key driver of firm-level effects on inequality of opportunities. Intergenerational inequality of opportunities can, for instance, be perpetuated or mitigated by firms in their hiring practices. Individuals from a poor family background are less likely to be hired for high-paying jobs than individuals from well-off families, because members of hiring committees may perceive applicants from poor family backgrounds as dissimilar to themselves and others in the firm. Individuals underprivileged backgrounds are less likely to be shortlisted and hired for such jobs as well due to the selection criteria, which may also be biased against them (Bapuji et al., 2020; Gray & Kish-Gephart, 2013; Laurison & Friedman, 2016). Moreover, such individuals are also less likely to have, or gain, access to the informal networks which can facilitate getting hired and subsequently promoted by a firm (Amis et al., 2020; Fernandez & Fernandez-Mateo, 2006; Yang & Aldrich, 2014).

Inequality of opportunities is also created when firms differentiate between different groups of workers in terms of hiring, promotion, and compensation, based on other characteristics such as their gender or race. Women, for instance, are often offered lower hierarchical positions (Castilla, 2008) and smaller teams to supervise (Lee & Kray, 2021), and receive less compensation even when they are in the same hierarchical position as their male peers (Blau & Kahn, 2007, 2017). As these practices and policies differ between firms, and many firms try to actively mitigate inequality of opportunities with varying degrees of success, the severity of inequality of opportunities varies between firms.

For MNEs specifically, cross-border activities come with their own set of challenges for HRM practices, including those which have been identified as pivotal in perpetuating inequality of opportunities (Amis et al., 2020; Ruiz Castro & Holvino, 2016). Human resources are critical in transferring and exploiting FSAs across borders. Boundary spanning managers and an efficient HRM infrastructure facilitate the management and coordination of economic activities by the MNE headquarters amongst its subsidiaries in different countries. In subsidiaries, employees with the specific skills and competences necessary to absorb the knowledge transferred from the headquarters are essential for the exploitation of FSA. Ultimately, "recruiting, deploying, utilizing, and retaining the 'right' people for each location to ensure that they contribute most effectively" (Andersson et al., 2019, p. 2) can be an FSA for the MNE in and by itself (Andersson et al., 2019; Collings et al., 2019; Conroy & Minbaeva, 2021; Minbaeva et al., 2014).

An important avenue for developing employees and facilitating knowledge flows within the MNE is through international assignments, which come with their distinct challenges in selecting, training and compensating employees to work outside of their home country (Reiche et al., 2015). Moreover, the standardization in HRM practices required to exploit them as FSAs and execute the MNE's global strategy (Conroy & Minbaeva, 2021; Chung et al., 2015; Edwards & Kuruvilla, 2005) must be balanced with the need for local adaptation (Pudelko & Harzing, 2007).

In the context of their international activities and their tangibility as global actors, MNEs have been placed at the center of the globalization-inequality nexus, both in academia and by the media (Hashai & Buckley, 2021; Rygh, 2021), prompting the question what the nature of their relationship to inequality is. Since its inception, the field of IB has concerned itself with this question, though the lenses through which the relationship has been examined have evolved over time, concurrent to shifting geopolitical developments and debates. In the next sections I will present an overview of this evolving debate on MNEs and inequality.

1.3.1 The early IB literature: MNEs and host-country relations

The early IB literature had an explicit focus on the potential of the MNE to impact inequality between developed and developing (though at the time more commonly referred to as first and third-world) countries. Much of this work considered the differences in the aggregate per capita incomes between the different types of countries. Penrose (1959) and Hymer (1970; 1982) were among the first to be concerned about MNEs' international expansion. While they recognized MNEs as organizations which can overcome market imperfections and have efficiency-advantages over the market, they envisaged that the law of capital accumulation would reinforce these organizations, resulting in oligopolistic and monopolistic practices through which MNEs could capture value at the expense of developing country firms and citizens. Moreover, they were concerned with the wider social and political impact of MNE presence in developing countries. In the same vein, many political leaders (and the public) in developing countries viewed the growth of MNEs as an extension of colonialism, and associated it with corruption, natural resource depletion, pollution, and degradation of the environment (Hymer, 1970; Schuler et al., 2006; Vernon, 1977).

Among these concerns, the high bargaining power of MNEs vis-à-vis host country governments was a critical issue for politicians and IB scholars alike, and indeed, remains so (Pearce, 2006; Ramamurti, 2001). The large oligopolistic MNEs with their advanced knowledge and technology and large amounts of capital were considered to be too powerful relative to the local host-country governments and firms in developing countries. This was feared to result in host country governments offering too favorable conditions in terms of for example ownership shares, tax rates or possibilities for natural resource extraction (Dunning, 1998; Fagre & Wells, 1982; Lecraw, 1984; Streeten, 1976). In more general terms, the phenomenon that governments thereby designed policies to aid the MNEs they were supposed to regulate was referred to as regulatory capture (Hymer, 1970).

Due to their oligopolistic power as well as their access to resources and capital, coupled with preferential treatment by host governments as a result of regulatory capture, MNEs were sometimes also feared to crowd-out domestic firms (Caves, 1974). This crowding-out was believed to be a result of increased competition in the consumer market after MNEs had gained a market share at the expense of domestic firms, in turn lowering domestic firms' scale and increasing their unit production costs. Moreover, the presence of MNEs was feared to divert resources such as financial capital, human capital, and government assistance away from domestic firms (Driffield & Hughes, 2003; Dunning & Lundan, 2008; De Backer & Sleuwaegen, 2003).

Apart from (ab)using their oligopoly power, MNEs were suspected of intentionally inflating and increasing their indispensability in terms of capacities and functions to increase their bargaining power over developing countries (Vernon, 1977). The dependence of host countries on FDI was also believed, by some, to create a global power imbalance between the developed and developing world. MNEs were feared to negatively affect the national sovereignty of host countries and to extract capital and resources from the developing world to the benefit of the developed world, a view dubbed *dependencia* in Latin America (Schuler et al., 2006; Vernon, 1977). In the same spirit, Hymer (1982) was concerned that the oligopolistic developed-world MNEs would concentrate their high-value adding activities in the developed world and impede the development of the developing world by only locating low-value added activities there.

Early IB scholars, most prominently Hymer, were thus mostly concerned how MNEs could hinder efforts of developing countries to develop and thereby catch up with developed countries. However, much of this work, in particular that of Hymer, was not generally accepted. Both his one-dimensional negative view of the MNE, which took into account its excessive value capture but not its efficiency and value creation (Dunning & Pitelis, 2008), and the neo-Marxist flavor of some of his policy suggestions were met with suspicion and criticism (Dunning & Pitelis, 2008; Dunning & Rugman, 1985; Pearce & Papanastassiou, 2006). The concerns about his views in part reflected the geopolitics of the time, particularly the cold war and the ideological setting of communism versus capitalism (Dunning, 1994). In the same vein, the (intended) political contribution of Buckley and Casson's (1976) extensive theoretical work on the debate, in which they explained that the efficiency gains from organizing international activities in the MNE rather than through the market would outweigh the optional value loss of abuse of monopoly power (which they believed was overstated), was mostly ignored. Their work did gain a lot of scholarly attention, but for its managerial rather than its political contribution (Buckley & Casson, 2003; Meyer, 2004).

1.3.2 The late 20th century debate on FDI and economic development

Around the late 1980s, after decades characterized by suspicion of MNEs and their motives, as well as import-substitution and protectionist policies, many policymakers were dissatisfied with what had been achieved in terms of economic growth and industrialization (Lall & Narula, 2004). Countries therefore started to compete for FDI in hope of accelerating their economic development. The main driver for this globally observed policy shift, actively supported by international agencies, was the underlying belief that FDI had the potential to have a positive effect on development, particularly in the interaction between local actors and MNEs. The dominant concern was still inequality between developed and developing countries, and the potentially effects of FDI on GDP per capita growth (Dunning, 1994; Lall & Narula, 2004; Narula & Dunning, 2000, 2010, Lall & Streeten, 1977). This shift in political and academic persuasion came in an era in which many developed countries had seen welfare increases throughout society. Concerns about developing countries lagging behind had also been growing, triggered by increasing public awareness over colonial wrongdoing, famines, and debt, and also by shifting geo-political forces and unease over nuclearization and the rise of communism (Berger, 2004).

IB research in this period was dominated by work centered around the premise that inward FDI could have a positive effect on economic development. This positive effect was thought to not only result from the direct and indirect employment created by inward capital flows (Lall, 1995), but also from increased fiscal revenues and exports, and increased productivity of domestic firms through spillovers (Lall, 1995; Lall & Streeten 1977; Meyer, 2004; Narula & Dunning, 2010). These spillover effects, still a topic of debate in the IB literature, are believed to originate from the superior firm-specific knowledge and capabilities of MNEs (their FSAs) which can be transferred to domestic firms and thereby improve domestic firm productivity (Altomonte & Pennings, 2009; Buckley et al., 2017; Girma et al., 2019; Giroud, 2007; Ha & Giroud, 2015; Meyer & Sinani, 2009). This transfer of FSAs can take place through various channels. Within the supply chain, backward linkages with local suppliers can result in the transfer of knowledge and capabilities, for example through training and assistance or higher requirements (Giroud, 2007; Javorcik et al., 2018; Jindra et al., 2009; Meyer, 2004). Downstream forward linkages with buyers and distributors can lead to the transfer of knowledge as this is embodied in the technologies, products and services provided (Driffield et al., 2002; Miozzo & Grimshaw, 2008). Horizontal spillovers to competitors are another channel, where local competitors benefit from imitation or demonstration effects (Ben Hamida & Gugler, 2009; Blomström & Kokko, 2002), or from labor mobility when they hire former MNE employees who bring firm-specific knowledge (Ben Hamida, 2013; Inkpen et al., 2019; Meyer, 2004). On an aggregate level, the improved productivity resulting from these spillovers is expected to increase economic development (Giroud, 2007; Jindra et al., 2009), and to thereby decrease inequality between developed MNE home countries and their less developed host countries.

Spillovers are by no means assumed to be automatic. To integrate and utilize the new superior knowledge domestic firms are exposed to because of their interactions with MNEs, a certain level of prior knowledge and skills must be present (Blalock & Simon, 2009; Zanfei, 2012). These preconditions to knowledge spillovers are known as absorptive capacity (Cohen & Levinthal, 1990; Criscuolo & Narula, 2008; Meyer & Sinani, 2009; Zahra & George, 2002). Even with high levels of absorptive capacity, complex and intangible FSA may not be easily observed or imitated by domestic firms (Inkpen et al., 2019; Minbaeva et al., 2003). Within their own firm, MNEs also face considerable challenges in transferring and exploiting (especially tacit) knowledge and skills. These challenges can be the motivation to internalize activities in the first place (Kostova & Roth, 2002; McGaughey et al., 2020). The extent to which these complex FSAs can spill over to domestic firms is therefore a topic of debate. An additional limitation to economic development through FDI is the reality that, particularly in developing countries, MNE interactions with domestic firms often involve fragmented low-value adding activities across many different firms in many different locations. Furthermore, in a number of countries, export-oriented MNE activities are clustered into zones specifically assigned for these activities by local governments. As a result, there are fewer interactions with domestic firms (operating outside of these zones) (Meyer, 2004). These realities abate possibilities for productivity spillovers, although some domestic firms have still been able to upgrade; learning enough from their interactions with MNEs to increase their capabilities and to even move up in the value chain to compete with the focal MNEs (Giuliani et al., 2005; Kano, 2018; Kumaraswamy et al., 2012; Mudambi, 2008; Pietrobelli et al., 2021).

Moreover, there is evidence that governments have been deliberately lowering labor standards in their attempts to attract foreign FDI, the so called “race to the bottom” (Davies & Vadlamannati, 2013), while MNEs have been both passively and actively promoting this competition between countries (Detomasi, 2008; Giuliani & Macchi, 2014; Surroca et al., 2013).

Even though inward FDI is often described to be positive for development, some differentiation in expected effects is made, especially relating to FDI motives and host-country conditions. Natural resource-seeking FDI is expected to create less spillovers than efficiency-seeking FDI aimed at export processing, because resource extraction requires fewer interactions with the local economy than, for example, manufacturing (Narula & Dunning, 2010). Moreover, a minimum level of pre-existing location advantages is required to attract FDI in the first place (Dunning & Narula, 2005; Lall & Narula, 2004). In the so-called investment-development path framework, the quantity and quality of FDI is specifically expected to co-evolve with local capabilities, both firm- and country-specific. As domestic firms accumulate knowledge and skills resulting from their interactions with MNEs, the country's overall location advantages change relative to other countries' location advantages, and thereby the relative attractiveness to more advanced type of FDI, which in term has more potential to create positive spillovers (Dunning, 1981; Dunning & Narula, 1996; Narula & Dunning, 2010).

The IB literature since the last decades of the 20th century has thus tended to focus on how FDI provides net positive effects for development, particularly for GDP growth, resulting from the interaction between domestic actors and MNEs. Apart from the aforementioned caveats on the achievability and size of these effects, few IB scholars and policymakers at the time questioned whether outcomes of MNE involvement in foreign economies were net positive, or potentially even negative (Narula & Dunning, 2010; Narula & Van der Straaten, 2021; Kaplinsky, 2013).

1.3.3 The recent debate on MNEs and within-country inequality

After the wave of research on how FDI could contribute to development and global convergence, the unit of analysis has moved to back to the MNE in the first decade of the 21st century, more particularly to its subsidiaries (Rugman et al., 2011). Moreover, the focus of policymakers and academics has also shifted to inequality within, rather than between, countries (Rygh, 2021). This change in emphasis is likely the result of the divergence in within-country incomes, and the growing interest in the subject within economics and in the media, both of which have linked the phenomenon to increasing globalization.

There are several reasons to believe MNEs contribute to within-country income inequality, in both the MNE's home country and its host countries. In many developed (home) countries, public opinion is driven by the belief that outward FDI is associated with jobs being relocated abroad. Although a large share of the decrease in low-skilled employment in the developed countries is associated with automation rather than globalization, there is evidence that some can be attributed to globalization (Hashai & Buckley, 2021). As MNEs are in a position to relocate their activities to minimize their cost of production, many did so to take advantage of lower labor costs after falling spatial transaction costs made such a move worthwhile. Concurrently, producers in developed countries suffered from an increase in competition from products produced, at lower cost, abroad (Kobrin, 2017; Rodrik, 2018; Rygh, 2021).

In host countries, MNEs may aggravate inequality between skilled and unskilled workers because of a skill-bias in inward FDI. To fully exploit FSAs, a relatively high level of technical skill and managerial expertise is required (Doh, 2019; Narula & Van der Straaten, 2021). Moreover, the transfer of knowledge from MNE headquarters to MNE subsidiaries (and vice versa) across significant (cultural) distance, as well as navigating the politics of multiple interests across geographies add additional layers of complexity to working in an MNE (Collings et al., 2019; Meyer & Xin, 2018; Morris et al., 2016; Tatoglu et al., 2016). Even the low skilled mass production jobs created by efficiency-seeking FDI are more skill intensive than similar jobs in domestic firms, as they are characterized by large scale automated production of relatively advanced products (compared to domestic firms). Consequently, skilled workers benefit more from the employment generated by MNEs compared to unskilled workers whereby existing divides are aggravated (Narula, 2019; Narula & Van der Straaten, 2021).

On top of these direct links between MNEs and inequality through employment and wage effects, a specific concern in the media, as well as economics and IB literatures is the inequality generated in the GVCs led by MNEs. While the literature on GVCs has considered their potential positive effects for economic development through spillovers, it has also emphasized their potential negative effects on individual wages and working conditions. The structure of GVCs derive from MNEs externalizing and relocating low value-added production activities to low wage countries after spatial transaction costs substantially decreased in the 1990s (Gereffi et al., 2005; Gereffi, 2019; Laplume et al., 2016). While the supplier firms in GVCs are not always owned by MNEs, MNEs are the key orchestrators of their GVCs by means of a variety of governance forms such as contracts, and alliances (Benito et al., 2019; McWilliam et al., 2020; Strange & Humphrey, 2019). As MNEs control the key value-adding activities in the GVCs and are relatively flexible in outsourcing low-value added activities, they have a lot of bargaining power and often reduce their suppliers to price-takers (Kano, 2018; Mudambi, 2008). Supplier firms are thereby squeezed for margins and lower the wages and working conditions in their own firm and lower-tier suppliers, to the benefit but not within the direct responsibility of the orchestrating MNE (Goerzen et al., 2021; Narula, 2019).

A last key aspect of the within-country distributional effects of MNE activities studied by IB scholars is their ability to minimize taxes, thereby impeding investment in infrastructure and redistribution of incomes by governments (Rygh, 2021). A common, legally permissible (though in Dunning's view (1998, p. 280) "manipulative") practice is to minimize taxes through transfer pricing (Faccio & Fitzgerald, 2018; Pearce, 2006). Additionally, global profits may be diverted from the locations these profits were made to tax havens, where subsidiaries are sometimes established for the purpose of tax evasion. Up to 55% of the profits of US multinationals are estimated to be registered in tax havens (Jones & Temouri, 2016; Jones et al., 2018). MNEs have also been linked to, illegal, evasion of taxes, in response to high tax regimes, poor legal enforcement and high levels of competition from firms in the informal sector (Gokalp et al., 2017).

1.4 MNEs and inequality of opportunities

As discussed in previous sections, international economists and IB scholars have thus far primarily focused on inequality of outcomes between and within countries when considering the relationship between MNEs and inequality. While GDP, GDP per capita, and their distribution are important economic indicators – and relating them to trade and FDI flows is useful to gain insight in macrolevel developments – development economists have emphasized inequality is a deeply rooted social phenomenon which has many dimensions.

In IB in particular, a small but growing body of research focusses on the societal impact of MNEs on the countries in which they operate (Kolk, 2016). As part of this nascent stream of research there have been increasing calls for research on the impact of MNEs on inequality within countries (Buckley et al., 2017; Doh, 2019; Giuliani, 2019; Kolk, 2016; Rygh, 2021). As set out in section 1.1, inequality of opportunities is a highly relevant social phenomenon in this context, which, as elaborated upon in section 1.3, MNEs can be expected to affect. Adopting the view of inequality of opportunities can thus provide valuable insights into the relationship between MNE and society, and between MNEs and inequality in particular.

The results of a small number of IB studies are suggestive of MNEs having a positive effect on equality of opportunities, though none explicitly refer to the concept. MNEs, for instance, have been found to invest in their host country communities by building schools and hospitals, granting scholarships, providing health care insurance, etc., thereby providing individuals with opportunities they would otherwise not have had (Eweje, 2006; Montiel et al., 2021). Moreover, MNE operations may improve opportunities for their customers, for example by providing microcredit to individuals with no access to formal lending (Bruton et al., 2011) or solar energy to areas which are not yet on the grid (Montiel et al., 2021). Of course, none of these mechanisms is exclusive to MNEs. Large profitable domestic firms can and do improve equality of opportunities in the same way. However, MNEs have an incentive to improve conditions for their host country stakeholders, more than domestic firms, to overcome their liability of foreignness (Campbell et al., 2012; Montiel et al., 2021).

A specific substream of research focusing on the role of MNEs in addressing inequality of opportunities is the Bottom of the Pyramid (BOP) literature. Unsatisfied with the results of governmental and non-governmental organizations (NGOs)' efforts in improving conditions for people at the bottom income percentiles, Prahalad and Hart (2002) have proposed MNEs can alleviate poverty while simultaneously making considerable profit at the lowest-income markets. To achieve this outcome, business models and products have to be adapted to lowest-income markets and collaboration with its consumers

(London & Hart, 2004; Ricart et al., 2004; Simanis & Hart, 2009). According to the BOP proposition, lowest-income consumers thereby get access to products which are better tailored to their needs. Moreover, they can take on the additional, and unconventional, role of entrepreneurs (Karnani, 2007).

However, an extensive literature review by Kolk et al. (2012) showed that the vast majority of BOP literature has not consider this entrepreneurial role and has focused mainly on the increase in access to lowest-income consumers for MNEs. Moreover, the BOP literature has moved away from the MNE as the unit of analysis (Kolk et al., 2012). Literature published since Prahalad and Hart (2002) primarily focusses on collaborations between MNEs and NGOs or between isolated local initiatives and NGOs as the source of poverty reduction or alleviation (e.g., Akula, 2008; Sesan et al., 2013), thereby relaxing the original BOP proposition (Dembek et al., 2020).

Studies suggestive of potential negative effects of MNEs on equality of opportunities are even rarer (Cuervo-Cazurra et al., 2021; Kolk, 2016). Concerns over these effects include MNEs using their large bargaining power to purchase land from developing-country foreign governments (dubbed “land grabbing”), which limits local host country farmers’ ability to provide in their existence and weakens institutions at the community level (Brandl et al., 2021; Santangelo, 2018). Similar concerns have been raised over MNEs in the mining industry, as local artisanal miners have been evicted to make room for them (Banks, 2013; Yakovleva & Vazquez-Brust, 2018).

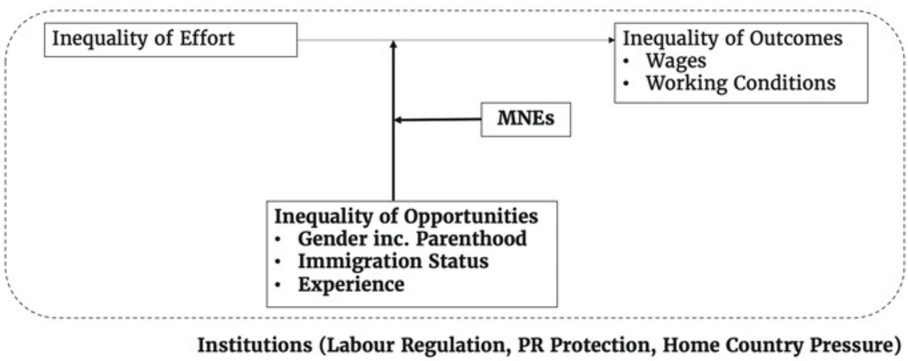
This line of research has provided valuable insights into the wider effects MNEs have on their host countries, in interaction with local institutions, and are suggestive of MNEs having an effect on inequality of opportunities. However, extant studies are still limited in terms of the countries, industries, and mechanism they cover. Moreover, they have primarily focused on how MNEs affect the level of inequality of opportunities and the quality of institutions for external stakeholders in the countries they operate in, rather than on how inequalities are aggravated or mitigated within the MNE itself. Given that many of the dynamics of inequality of opportunities play out within firms, firms have a pivotal role in creating and mitigating inequalities of outcomes (Amis et al., 2020). The differential effects MNEs have on inequality of opportunities in this respect is poorly understood – a research gap this dissertation aims to address.

1.5 Aim and outline of the dissertation

As outlined in the previous sections, how the nature and causes of inequalities are shaped by MNE activities has received limited attention in literature to date, prompting increasing calls for more research on the topic (Amis et al., 2020; Buckley et al., 2017; Doh, 2019; Giuliani, 2019; Kolk, 2016; Rygh, 2021). A better understanding of MNE effects on inequality could provide policymakers and managers with the insights that are necessary to mitigate negative and enhance positive effects of MNE activity. Moreover, it could advance the academic debate on the impact of MNEs on their home and host country societies.

This dissertation therefore systematically examines, both conceptually and empirically, inequality of opportunities that may be affected, either positively or negatively, by MNE activity. As institutions have been found to moderate the effects of globalization on inequality (Dorn et al., 2018), and are of great consequence for MNE activity (Jackson & Deeg, 2019; Kostova et al., 2020), they can be expected to play a pivotal role in the context of inequalities within MNEs. Specific attention will thus be paid to the role of institutions in how inequality of opportunities and outcomes take shape in and by MNEs (see Figure 1.2).

Figure 1.2 Focus of the dissertation (in bold)



Even though the studies included in this dissertation are the first to explicitly consider and examine inequality of opportunities in MNEs across different institutional contexts, the studies are by no means all-encompassing. Due to several limitations, the availability of data being the primary one, the scale and scope of the inequalities and institutions has to be delineated. Yet, by using unique micro-level data collected in both developed and developing countries, the relevance of MNE activities for inequality of opportunities in host countries can still be substantiated.

By examining the research question *How do MNEs, in interaction with institutions, shape the effect of inequality of opportunities on inequality of outcomes?*, this dissertation aims to contribute to selected scholarly debates. Firstly, the dissertation seeks to contribute to the emerging stream of literature on the societal effects of MNEs. Scholars, managers, and policymakers are only beginning to understand the wider societal impact of MNEs. In particular, micro-level mechanisms are rarely considered and tested (Brandl et al., 2021). By studying a highly relevant aspect of societal impact at the micro-level, and accordingly developing and testing theory on the relationship between MNEs and inequality of opportunities, the dissertation aims to expand extant knowledge in the field. Moreover, the multiple and heterogeneous institutional contexts of MNEs, and the high relevance of institutions for inequality, makes the research context particularly relevant for the debate on the materiality of institutions for IB, a second debate the dissertation aims to contribute to. The empirical setting of the studies in the dissertation includes a wide variety of 60 home and host countries, both developed and developing, across continents. It thereby provides ample opportunity to develop and test hypotheses on the importance of institutions for MNEs and their stakeholders. Lastly, the dissertation aims to contribute to gender theory by developing theory on how firm heterogeneity is a key contingency to the wage gaps associated with parenthood, and by thereby examining MNE-specific gender constructions. Table 1.1 provides an overview of the three empirical chapters.

Table 1.1 Overview of Empirical Chapters

	Inequality of opportunities	**Institutions**	**Inequality of outcomes**
Chapter 2	Gender, country of birth, experience	Labor regulation, PR protection	Wages
Chapter 3	Motherhood, fatherhood		Wages
Chapter 4		Home-country stakeholders	Wages, working conditions

In the first study, i.e., Chapter 2 of this dissertation, my co-authors and I explore how inequality of opportunities and institutions moderate the relationship between individual effort and outcomes in MNEs. We compare employees of MNE subsidiaries to employees of domestic firms to identify MNE-specific effects. In our study, we use employee survey data to compare the individual wages of employees of MNEs to those earned by the employees of domestic firms in 13 countries and confirm the existence of the MNE wage premium found in previous studies. Building on IB theory, and on social identity theory, we hypothesize MNEs to have a smaller gender and immigrant wage gap and a larger experience premium. Moreover, we posit labor market regulation and property right protection in the MNE host country to decrease the size of the MNE wage premium. The study then empirically estimates the significance, sign, and size of MNE-specific wage effects by employee characteristics in terms of gender, immigration status, and experience. The study thereby tests whether inequality of opportunities is different in MNEs compared to domestic firms. Subsequently, it examines the moderating effect of institutions by estimating the impact of host country labor market regulation and property right protection on the size of the MNE wage premia.

Next, Chapter 3 zooms into inequality of opportunities related to gender and parenthood specifically. I build on gender theory and consider how gender is construed and enacted differently in MNEs compared to domestic firms, and how this may result in a wage gap for mothers ("a motherhood penalty") and a wage premium for fathers ("the fatherhood bonus") compared to their childless peers. Due to the relatively demanding and masculine work environments in MNEs, I predict both the motherhood penalty and the fatherhood bonus to be larger in MNEs compared to domestic firms. These hypotheses are subsequently tested using employee survey data from 60 countries, drawing inference on how inequality of opportunities related to gender, may be different in MNEs compared to domestic firms.

The final empirical study, Chapter 4, focusses explicitly on the role of institutions, and an additional type of inequality of outcomes; inequality in working conditions. Contrary to domestic firms, MNEs have to consider multiple institutional settings, i.e., institutions in their home country and in their multiple host countries. MNE stakeholders, specifically governments, NGOs, media, and the public, put pressure on the firm to pay fair wages and offer decent working conditions, both at home and abroad. Previous research on the relationship between home country institutional pressure and working conditions in MNE host countries was inconclusive. Some studies have predicted the relationship to be positive, while other have predicted it to be negative. In this study, the two opposing views are reconciled by positing the effect of home country pressure on MNE working conditions is non-linear: the effect is positive at low levels of pressure, but negative at high levels of pressure, resulting in an inverse u-shaped relationship. Using survey data of employees in 42 countries working for foreign-owned MNE subsidiaries from 32 countries, the study tests the effect of institutional pressure from the different MNE home countries on the working conditions and wages of employees in the host countries.

Chapter 5 presents the conclusions of the dissertation and answers the research question by providing an overview of the outcomes of the dissertation. Subsequently, the implications for theory, management and policy are discussed. While the dissertation aims to advance the understanding of the relationship between MNE activity and provides new insights, a number of relevant angles could not be covered. Chapter 5 therefore also notes the limitations of the dissertation and the areas considered highly promising for further research from both an academic and societal point of view.