

## TOWARDS A NEW PARADIGM OF DEVELOPMENT; IMPLICATIONS FOR INTERNATIONAL BUSINESS RESEARCH

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### 1. INTRODUCTION

One of the (largely) consequences of the contemporary phase of globalization<sup>1</sup> is that it is compelling academic scholars, national governments and supranational entities to reappraise the nature and purposes of development; and the ways in which the activities of multinational enterprises (MNEs)<sup>2</sup> are both responding to, and influencing, it.

In this paper, we shall first summarise the main ingredients of what we shall term the new paradigm of development (NPD) – and how these differ in substance or emphasis with those which were generally accepted in the 1970s and 1980s. In doing so, we shall draw particularly on the recent writings of three Nobel Laureates in Economics – Amartya Sen, Joseph Stiglitz and Douglass North; and set these in the context of the attitudes and actions of the participants in the international economy in response to 20/21 globalization. We shall then offer our own interpretation of an NPD; and in doing so will give particular attention to (what in our judgement is) one of its most important, yet least considered components, viz its institutional composition.

The final part of the paper will examine some of the implications of the NPD for our theorising about both the determinants of MNE activity in developing countries; and about its likely impact on our economic and social well being.

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<sup>1</sup> We use the threshold definition of MNEs (sometimes referred to as transnational corporations (TNCs)) to embrace all enterprises which engage in foreign direct investment and which own or control value added activity outside their national boundaries.

<sup>2</sup> Henceforth called 20/21 globalization to distinguish it from the previous great leap forward in the internationalisation of world commerce viz the 19<sup>th</sup> century.

## 2. THE STATE OF DEVELOPMENT THINKING CIRCA 1970s

Table 1 summarises the purposes, nature and determinants of development in the 1970s and early 1980s – as contained in the leading scholarly writings of the time, and in the attitudes, statements, policies, strategies and other actions taken by the main participants in the development enhancing process. These, of course, are generalizations; and their precise form varied according to country, sector or firm specific factors.

The key characteristics of the old development paradigm (ODP) as set out by scholars is based on the underlying assumption that, as a group, the goals and characteristics *of the developing countries were fundamentally similar to those of developed countries*<sup>3</sup> *except the former were less developed than the latter!* Furthermore, it was believed that the best way to advance the living standards of the poorer countries, usually proxied by gross national product (gnp) per head, was for them to adopt the institutions and policies of the wealthier nations – which had helped them grow and prosper in the first place.

With some notable exceptions – e.g. those of the dependencia and Marxist schools of thought,<sup>4</sup> earlier work by economists on development paid little heed to social goals or to the production of goods and services which could not be readily supplied by the market. In the developed world at least, most of the literature was an extension of the (dominant) neoclassical .....in which the role of government was limited to facilitating market transactions and supplying goods the markets could not supply. Essentially Western economists interested in development sought to apply the toolkits of received trade, productivity and growth theory to explain why some

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<sup>3</sup> Which, of course, themselves differed according to resource structures, size, degree of international economical....

<sup>4</sup> See e.g. Biersteker (1978), Sunkel (1972), South (1979 in respect of the dependencia school and the Marxist approach. See also several contributions in Moran (1986).

developing countries grew<sup>5</sup> and others did not (Reynolds, 1970). For the most part little attention was given to such goods as the environment, participation, safety, sovereignty, identified, for example, by Jack Behrman in his writings. (Behrman 1971).

Although critical – to a greater or lesser extent to the neoclassical approach, the influential work of scholars such as W.A.Lewis (1965), Paul Streeten (1974), Bala Belansa (1981) and Hollis Chenery (1979) least critical – some of which are summarized in Lall (1993), each looked at the plight of developing countries as a lack of indigenous capacity to meet several economic objectives. For example, in his appraisal, Streeten identified eight ‘gaps’ which developing countries needed to fill if their policy objectives were to be filled.<sup>6</sup> But neither he, nor other scholars at the time, paid little credence to the *process* by which the gaps might be reduced; the approach was by and large a comparative static and frictionless one; the means and ends of development were largely considered independent of each other; the issue of production of international public goods, such as the environment; and the role of civil society and supranational agencies was largely ignored,– and indeed the whole issue of ownership, and stakeholder capitalism was for the most part ignored.

Beyond (Western based) academia, however, a broader perspective on development issues was being taken. Nowhere was this more demonstrated than in the UN where the whole issue of the sovereignty and participation of the developing countries in the emerging world economy was actively discussed. In the 1970s pronouncements such as the *Charter on Human Rights*, the *New International*

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<sup>6</sup> These included a *resource* gap (between desired investment and locally mobilised savings) a *foreign exchange* or *trade* gap between foreign exchange requirements and foreign exchange earnings plus official aid, a *budgetary* gap between target revenue and locally raised taxes, a *management and skill* gap between the supply of and demand for these capacities, a *technology* gap, an *entrepreneurship* gap, an (international) *marketing* gap, an *employment* gap and a *market structure* (improvement) gap.

*Economic Order* and the *Permanent Sovereignty over National Resources*, together with the report of a Group of Eminent Persons on the Role of Multinational Corporations on Economic Development and (sic) International relations (UN 1974) became the basis for identifying the major goals and tasks of development – as viewed primarily by many (but not all) developing countries.<sup>7</sup> However, the case for a more holistic approach to development which also recognised the desire for political sovereignty and autonomy in economic decision taking by national governments was very context specific, it being most vociferously voiced by Latin American countries and least by the emerging and rapidly growing East Asian economies.<sup>8</sup>

For the most part, these views and actions had little impact on mainstream scholarly thinking. Neither did they greatly influence the views or strategies of business enterprises, which, at this time, (with a few exceptions) thought it was the task of governments to deal with the social issues of development – including those related to governance of social justice. Moreover, such enterprises were very much driven to meet their shareholders interests, which in the main were of a profit maximising, capital appreciation kind. Civil society – in the guise of special interest groups – including consumer and ethical shareholders activism; generally ineffective apart from particular issues like Apartheid, natural disasters and occasional unacceptable practices of MNEs, (e.g. the ITT affair in Chile and the Nestle milk powder scandal).<sup>9</sup>

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<sup>7</sup> In addition, several UN agencies (e.g. UNCTAD, ILO, UNIDO) also took a broad perspective on development. By contrast the World Bank, IMF and GATT took a more narrow economic efficiency enhancing approach.

<sup>8</sup> The former who were most influenced by the ‘dependencia’ group of scholars; and the latter by a Western based neoclassical approach modified to include the role of the State as an enabling and participatory form of governance.

<sup>9</sup> These and other early malpractices on the part of MNEs are described by Tagi Sagafi-Nejad in his history of the interaction between the UN and TNC, (see Sagafi Negad (2003)).

One reason for this was that the awareness factor and the radius of concern – especially among developed country participants – was itself not as well developed. However, some well established philanthropic organizations and religious groups continued to emphasize the needs of the poorest inhabitants of developing countries, as indeed did trade unions in respect of the rights of third world workers.

In short, as far as the contents of ODP which largely dominated mainstream thinking tended to pursue a narrow somewhat ethnocentric, unifacted and static economic approach. In particular, it paid relatively little attention to institutional infrastructure and social capital, the paucity of which frequently frustrated the ability of decision takers in the developing world to create and effectively deploy the resources and capabilities necessary for their development.

### **3. GLOBALIZATION AND TECHNOLOGICAL ADVANCE; THE OPENING FOR A NEW PARADIGM**

In the two decades following the arrival of the Thatcher government in the UK and the Reagan administration in the US, the global economic scenario and its implications for thinking on the purposes and characteristics of development has changed dramatically.

Most of the events of these years are well known and have been described at length elsewhere. In Table 2 we summarise these as they affect the subject of this paper. It can be seen that the twin driving forces necessitating a reappraisal of both scholarly thinking about and practical action towards development are (1) the liberalisation of markets and technological advances in cross border transport and communication. Between them these have led both to an enlargement of economic opportunities of firms, social intercourse between people of different cultures, and a huge reduction in cross-border transaction costs. (2) Advances in all forms of

information and knowledge relating to the wealth creating process. Such information and knowledge is contained in both physical capital and human capability. It embraces all stages of a given value chain and across value chains. It also incorporates both micro and macro organizational capital.

When the nature of these two forces are considered together it can be seen that they.....the forces of globalization are in order to promote production and exchange most effectively. In particular, it is frequently necessary for firms to work together to create and exploit some kinds of innovations. In other cases a firm producing end goods in one country may need to draw upon the expertise of a firm in another country to either provide it with an essential input, or help it market and distribute its product(s). To be effective such horizontal and vertical coalitions need each participant to bring to the table assets over and above those needed in a hierarchical organization. In particular research has shown that the virtues of trust, honesty, reciprocity and a respect for cultural *et al* traditions, are particularly important requirements determining the success of strategic alliances and other forms of non-equity partnerships.<sup>10</sup>

Yet, perhaps the most significant consequence of globalization, which directly stems from those just identified, is that to do with its institutional imperatives and particularly the behaviour of its participants. Our assertions here are two-fold. The first is that one of the unique features of globalization is that in various ways it links – it interconnects – different behavioural mores and value systems, which though, *prima facie* at least, are not easily reconcilable with each other, (or at such differences need to be respected) need to be if international commerce is to be conducted in a peaceful and fruitful way. Globalization has in fact widened and changed the physical

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<sup>10</sup> For examples see various contributions in Contractor and Lorange (2002).

and human environment for doing business. The number of developing countries' players on the world economic stage is increasing all the time. Technological advances have made it more volatile, complex and challenging. TV and the internet have increased the awareness (not to mention the expectations) among the peoples of the world about their respective values, needs and aspirations; it has facilitated the cross border exchange of knowledge, ideas and information. It has widened the radius and generated new forms of interpersonal, intercorporate cooperation. By doing so it is compelling a reconfiguration of the purposes of development; it is reprioritising objectives and questioning the means by which poverty and the other downsides associated with contemporary global capitalism might be resolved.

The second of our two assertions is that incentive structures and the belief systems underpinning them tend to lag behind technical, economic and even political change. Yet it is not too much to say that each age of capitalism depends on a moral culture which nurtures the virtues and values on which its existence depends. It is the implicit contention of this paper that not only is 20/21 globalization requiring a new understanding of the purposes, nature and determinants of development, but that if it is to be economically sustainable, democratically inclusive and socially acceptable, its institutional infrastructure needs to be reconfigured and upgraded. Many of the changes required are in the process of being put in place; others are still necessary. It is the implications of these for the determinants of MNE activity to which we shall give attention in the latter part of this paper.

#### **4. THE NDP – VIEWS OF THE TRIO OF NOBEL LAUREATES**

We now turn to consider some of the ingredients of the NDP seen primarily through the lens of three Nobel Laureates, Amartya Sen, Joseph Stiglitz and

Douglass North. Though, as Figures 1 and Table 3 show, each economist takes a somewhat different perspective, each is dissatisfied with the ODP – and particularly that which reflects the principles of the Washington Consensus, and views gnp per head as the main indicator of development; each thinks of development as a holistic and multi-faceted concept embracing a variety of objectives; to a greater or lesser extent, each is concerned with the dynamics of the transformation and each emphasises the importance of institutions and each regards means and ends as being interwoven as part of the development process.

Looking at the specific contributions of the Laureates that of Amartya Sen is to give most focus to the ways of advancing real freedom of people, both by removing the main sources of ‘unfreedom’, e.g. poverty, tyranny, poor economic opportunities, neglect of public facilities and the intolerance and over activity of repressive states and to promote the more positive freedoms of choice and opportunity (Sen 1999). In the pursuance of these goals, Sen also views substantive freedom as a means, as well as an end of development. In identifying five types of freedom<sup>11</sup> Sen pays special attention to the institutions necessary to help people to better value and control their lives, to advance their true capabilities and responsibilities, and to achieve a desirable balance between the role of the different constituents of the wealth creating process. Sen, of course, recognises the huge difficulties in measuring the kind of development he urges, but suggests a start should be made by better incorporating freedom related indices into any index of progress.<sup>12</sup>

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<sup>11</sup> Sen identifies five kinds of freedom, viz political freedom, economic freedom, social freedom, transparency guarantees and protective security. Each may be viewed as a freedom from something undesired or a freedom to achieve certain objectives.

<sup>12</sup> Such as, e.g. extent and rate of poverty reduction, reduction in abuses of human rights, mortality reduction, promotion of democracy, protection of the environment, reduction in corporate and government malfeasance, advances in security and safety standards. It should be acknowledged that some indices, e.g. the UN Human Poverty Index, and the Heritage Index of Freedom have already made some progress in this direction.



To Joseph Stiglitz, development is primarily concerned with the economic and structural transformation of resources, capabilities of societies and markets; and of the mindsets and entrepreneurship of its individual and organizational constituents. Stiglitz's main criticism of the ODP (as we have identified it) is that it is too narrowly focused, is incapable of coping with the needs of an uncertain innovating global economy, tends to be adversarial in its approach, ignores the ownership and/or participatory issue, underestimates the role of the non-market sector in the provision of collective goods or those which generate spillover effects, and perhaps most important, pays little or no heed to the institutional infrastructure, the quality of which he asserts is one of the critical determinants to the direction, structure and speed of the transformation process.

Stiglitz believes that the NPD should be (and to a certain extent is) more holistic, more consensual, more socially inclusive, more open, more participatory in its content. It should better recognise the role of partnerships, networks and social capital as contributors to these goals. It should place the learning process and adjustment of individuals and organizations' efficiency centre stage. It should pay more attention to the role of civil society and special interest groups as developing enhancing entities. It should necessitate a wholesale reconfiguration of the objectives and functions of the leading supranational organization especially the UN, the World Bank, the IMF and the WTO.<sup>13</sup>

Of the three Nobel Laureates, Douglass North is the one who pays the most attention to the incentive structures affecting economic development. Such incentive structures in his various publications<sup>14</sup> have been all too frequently ignored in the neo-classical literature. But North, like Sen and Stiglitz, believes the contemporary

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<sup>13</sup> As spelled out in more detail in Stiglitz (2002).

<sup>14</sup> Notably North (1990, 1994, 1999).

characteristics of the global economy, and reconfiguration of views by both individuals and organizations about the purpose and content of development, in compelling academic scholars, the business community and governments to pay more attention to the rules of the game and enforcement mechanisms undergirding economic activity.<sup>15</sup>

Much of North's work in recent years has been to identify the components of the incentive structure of different societies, and of the individuals and organizations comprising them. More specifically he defines institutions as the rules of the game which govern the way in which humans structure their (commercial) interactions. They comprise first formal rules such as constitutions, laws and regulations, which are normally put in place and enforced by political entities, e.g. governments or supranational agencies; second informal rules such as norms of behaviour, conventions, covenants and voluntary codes of conduct that govern much of human behavior, which may be either imposed on a lower level of governance by a higher level of governance, or spontaneously (voluntarily) imposed; a third enforcement mechanism made up of (a) self enforced codes of ethics or behavior, (b) the ability of those (adversely) affected to retaliate, (c) penalties or sanctions (sticks) or tax *et al* incentives (carrots) imposed by governments.

According to North, as a society develops and economies become more complex and specialised, so do the transaction costs of economic activity rise. By contrast, production costs tend to fall. Globalization and its two main drivers – technological advance and market liberalization – tend to have a mixed effect on transaction costs. On the one hand, the advent of E-commerce is reducing the costs of cross border communication. On the other, the increased complexity and

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<sup>15</sup> Which we simply define as the creation of wealth which involves the use of scarce resources. Under this definition, wealth can comprise any goods and services (including the reduction of 'bads') which gives satisfaction to those for whom it is intended.

specialization of modern dynamic knowledge based economy demands new and more flexible incentive structures and enforcement mechanisms to ensure that the transaction costs of the relevant markets and non-market instruments are kept to the minimum. Such a reconfiguration of institutions, North asserts, is necessary at every level of decision taking (from the individual to supranational entities) if the development goals articulated by Sen, and the transformation and local ownership of resources and capabilities and the integration of global or regional markets identified by Stiglitz, are to come to fruition.

In his more recent writings, North has attempted to advance our understanding about the origin of institutions and institutional change. This takes us into the realm of values and belief systems, which, though we shall acknowledge in the next section of this paper, must await more detailed examination in another contribution.

Before turning to our own interpretation of the NDP, we should make brief mention of the changing attitudes and perspectives of the practitioners and constituents of the development process itself. These – particularly enumerated by national governments and supranational agencies have undoubtedly influenced and been influenced by academic scholarship. But more than anything else, I would argue here, has been the combined effects of globalisation itself *and* the experience of developing countries with the workings of the ODP.

As far as individuals – and to a certain extent civil society as a whole, it has been the ‘awareness’ factor of how the other half lives’ coupled with an increased appreciation of all aspects of freedom, the imperatives of environmental protection, a greater sense of social justice, and the extent of dire poverty which have prompted a reappraisal of their own and internal incentive structures in pressurising both

corporations and governments to encourage a more socially responsible and inclusive form of development.<sup>16</sup>

“Corporations too, though still fairly focused on the traditional objectives of their value added activities, are increasingly cognisant of their wider social responsibilities. The environment, an acceptable minimum standard of working conditions, more accountability and transparency of their financial *et al* operation, and the critical importance of trust and other forms of relationship capital reciprocity for successful partnering, a judicious and responsible application of monopoly power and the absence of corporate malfeasance, are all avenues which are requiring new institutional structures either of a ‘top down’ regulatory or a ‘bottom up’ voluntary nature demanded by the NDP.

No less have national governments and supranational entities changed their perceptions of development. In the 1980s and early 1990s most governments of developing countries, backed by their counterparts in the OECD countries, placed upgrading national competitiveness as top of their political agendas. This was in marked contrast to the earlier decade in which the goals of the same administrations had been much influenced by such UN initiatives as the New International Order. In the last decade there has been some reaction to the less welcome consequences of liberalized markets (including free cross border capital markets), and an increasing integration of their economies into global markets, including that fostered by MNEs. More particularly in the 2000s, partly as a result of the publicity of unacceptable business practices, renewed attention is now being given to both ‘top down’ and ‘bottom up’ ways of ensuring that MNEs and their affiliates conduct themselves in a

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<sup>16</sup> For example, by the action they take in the market place, by ethical investment initiatives, and through the ballot box.

way consistent with the goals and values of the NDP – as perceived appropriate by the particular countries in question.<sup>17</sup>

Of the supranational agencies, perhaps the World Bank, over the last decade or so, has widened its agenda on development orthodoxies to incorporate those elements identified by the Nobel Laureates. Indeed a study of the annual World Development Reports (WDRs) suggests there has been a regular interchange of views, opinions, and recommended action between the Bank, its various consultants and academia in general.<sup>18</sup> To give just three examples, first, in the 2000s much more attention is being given to the quality of the institutions in developing countries prior to the granting of any aid; second there is an increasing – though in some cases a somewhat hesitant – recognition that a local ownership of the ingredients of development including technical and financial assistance provided by the Bank is a better guarantee of a sensible usage than an insistence of conditions attached to such assistance. And thirdly, the Bank is now acknowledging that the role of non-market organisations – and in particular the State and civil society have an important role to play in determining and charting the course of development; and the quality of their incentive structures is a critical component of this task.

We do not have the space to review the perceptions of the other UN agencies.<sup>19</sup> But undoubtedly one of the foremost agencies to adopt a broader approach to the developmental impact of 20/21 globalization has been the International Labor Office, which in 2002 commissioned a group of experts to study and report on the

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<sup>17</sup> Increasingly, I view the increasingly broad interpretation now being given, for example, by such UN agencies as the United Nations Research Centre on Social Development (UNRISD) to corporate social responsibility (CSR) as a renaissance of the earlier emphasis on performance requirements.

<sup>18</sup> For more details see two excellent surveys of the themes and contents of the WDR between 1978 and 2000/1, by Mawdsley and Rigg (2002 and 2003).

<sup>19</sup> This is the subject of a number of ongoing research projects due to be completed in this year or in 2004. See for example Tesnev (2000), Richter (2003) and Sagafi Negad (2004).

social dimensions of globalization.<sup>20</sup> Finally, at the UN itself, mention should be made of the initiation in 1999 of a Global Compact by the secretary General and between large corporations, national governments and parts of civil society. Such a compact is based upon three fundamental and widely agreed values, all of which have been agreed by the UN and its agencies, and further broken down into nine principles of corporate behavior – all of which seem to confirm the need for an NDP.<sup>21</sup>

In Table 4, we set out a summary of the main contents of the NDP drawn from the sources already identified. In the next section of the paper, we present our own framework of the paradigm before proceeding to discuss to what extent, and in what ways, it requires business scholars to reappraise their thinking about the determinants of MNE activity in developing countries.

## **5 THE DUNNING MODEL (OF VERSION OF THE NDP)**

In diagram 2 we set out our taxonomy of the components of the NDP in the form of a number of sequential steps or a kind of value-chain of inputs. We start off in (1) by the identification of the objectives of development. As already indicated these are likely to be multifaceted and context specific. In addition, they need to be viewed dynamically (*viz.* over time) with the process by which development is achieved being an end in itself.

In (2) we identify the determinants of the extent to which these objectives are likely to be met. These will be first dependent on the resources (R) or (T), capabilities (C), and market opportunities (M) created, accessed or utilised by the main wealth creating organizations in society. (See 2A). These may be internally or externally

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<sup>20</sup> The report is due to be published in February 2004.

<sup>21</sup> For a review of the current state of the Global Compact see UN 2003. For a critical review of its provisions and impact on corporate social responsibility and development in general see Richter (2003).

sourced. Such (R) and (C) may comprise both national assets (land and unskilled labor) and created assets, management capabilities, knowledge, organizational skills, financial capital and entrepreneurship, depending on the characteristics of demand and the market structure (M) may be natural or created (via better information, advertising, product innovation, and so on).

For the most part, the ODP – or at least the economists’ contribution to our understanding about its determinants – stops at this point of the value chain, although, when viewed from a policy perspective, and over time, the incentive structures underpinning the behavior of firms – particularly as they affect the creation of new (R) and (C) and/or markets – are given some attention.<sup>22</sup> However, by contrast, the NDP gives these issues pride of place – mainly as we have indicated because 20/21 globalization, recent advances in technology, new scholarly insights into the determinants of growth, have shown that however necessary (R), (C) and (M) may be for the competitiveness of firms and to the development of countries in themselves they may not be a sufficient condition. For this to be so explicit, attention needs to be given to the quality and contents of institutions, and the mechanisms by which they are initiated and enforced.

In (2B) we then explicitly incorporate institutions as a variable which both influences the content and quality of (R), (C) and (M) and is influenced by them. In this paper we shall adapt the Northian interpretation of institutions as *“incentive structures which determine the attitudes and behavior of individuals and organizations owning or accessing (R), (C) and (M), and the ways in which the latters’ creation and usage may best meet the objectives and content of development*

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<sup>22</sup> Mostly in the form of regulatory and incentive devices initiated by governments, including, for example, the conferring and protection of property rights, and

goals” .<sup>23</sup> From the viewpoint of their individuals and organizations housing them, they represent the self imposed and/or enforced incentives and control mechanisms which determine their attitudes and contacts in the commercial domain. From a societal viewpoint the totality of such institutions may be considered as the intangible component of its *social capital* (Fukuyama 2000). As we have already indicated – and as indicated in Table 4, institutions and their enforcement mechanism may take various forms. Their effectiveness is likely to be strongly context specific varying according to country, as well as to the characteristics and performance of the international economy. In today’s 20/21 globalization their content and significance is also likely to be quite volatile; particularly as it affects the response of individuals, firms, civil society and governments to economic and social change.

Institutions and institutional change may be demand or supply driven. Recent events suggested each has interfaced with the other. Institutions affecting change in demand include measures to improve information flows, advertising, taxation, peer pressure and the tastes, buying habits and expectations of consumers. Those influencing the supply of goods and services include laws and regulatory property right protection, tax incentives, attitudes towards corporate responsibility, the ethical or moral ethos of society – its constituent organizations – including governments – towards the wealth creating process, competition (or the absence of same) and the stage or pace of development.

In the ODP the performance of a country’s institutions is primarily evaluated by the efficiency with which markets operate – be they intermediate or final product labor markets – and the role of governments in facilitating this process. In the NDP, institutions play a critical role in determining the ethos and governance of the

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<sup>23</sup> We accept of course there are other interpretations of institutions. For a recent review of these see Williamson (2000) or Maitland and Nicholas (2003).



organizations responsible for resource creation and utilization; these same organizations (and the individual decision takers within them) react to and implement change and the effectiveness of alternative models of governance (e.g. hierarchies of joint ventures and strategic alliances). In the NDP, the nature of the interface between ‘bottom up’ and ‘top down’ institutional constraints – as may influence the quality of entrepreneurship and human resource development, the extent and pattern of innovation, the ethical imperatives underpinning interfirm alliances, the system of property rights, the content and effectiveness of corporate social responsibility,<sup>24</sup> together with the mechanisms by which these structures once introduced fulfil their purpose – is.....

Another feature of the NDP is that it accepts that there is no ‘one size fits all’ optimum developmental strategy. *Inter alia* this acknowledgement has been brought about by the forces of globalization and technical change. In turn this has led to the awareness that not only do the values and goals of develop.....differ across countries, according to their inherited cultures and ideologies, but that the nature and content of the institutions and institutional infrastructure required to promote the best use of their (R), (C) and (M) may itself influence these cultures and ideologies.<sup>25</sup> Indeed, as has been pointed out elsewhere (Dunning 2003), the success of responsible global capitalism rests on the willingness and ability of its constituents to create a set of institutions and institutional constraints which will ensure that the gains from the integration of cross border markets and production systems are

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<sup>24</sup> As judged appropriate by the stakeholders of the corporations and society to best meet their respective (developmental) goals.

<sup>25</sup> Indeed there are as many different values placed upon the kind of institutions underpinning the wealth creation process as a country’s (R), (C) and (M) – however highly productive these may be – that give rise to the different roles played by the market, governments, civil society in that process (Hall and Soskice, 2001).

balanced against those arising from decentralization of decision taking about the use of (R), (C) and (M)s specific to, and embedded in, local communities.

But should the interest and the contribution of economists and business scholars go further to ask what, in turn, determines a societies' behavioural norms and other institutional constraints. Douglass North believes so and is now working in the area of values and belief systems which he believes connects 'reality to institutions (North 1999). In this paper we will do more than to acknowledge three things. First the fact that the institutions of society and its constituent decision taking organizations does rest on the values, and their origin of different cultures and belief systems. Second that the age of 20/21 globalization is bringing about a reconfiguration of the core values underpinning behavioural mores – *inter alia* because of (a) a new set of consumer-based freedoms and expectations associated with liberalised markets and technological advances, and (b) a heightened sense of awareness of some of the injustices and exclusivities of the wealth creating and distributing system. Third that for the most part, the prioritisation of the values just described differ very considerably across different cultures.

In a recently edited book (Dunning 2003), a number of contributors explored some of the virtues which they believed help socially fuel responsible and democratically inclusive global capitalism. A few of these, they argued, needed to be universally held and practised by all of those participating in the wealth creating process. Others, however, were specific to particular belief systems. Some were based on religious belief, tradition and interested family values, others reflected the spirit of the age, advertising the need for reputation, the influence of governments' moral suasion, and peer pressure., Each to some extent or other helped and helps fashion the institutions and institutional constraints underpinning economic and social

activity. The content and character of each and the extent to which they are harmonized or the differences respected and tolerated in the institutional framework governing global commercial transactions is both one of the key components of the NDP, and one of the determinants of the success of future development strategies.

In the following section we shall turn to consider the impact of some of the NDP attributes of the determinants of IB activity. In doing so we propose to concentrate on the way in which the explicit addition of institutions into the traditional explanations of such activity may affect (and have affected) our thinking. However, in doing so we shall not stray further down the chain of determinants, i.e. beyond (2b) of development set out in Diagram 2. This indeed is the subject for another paper (or group of papers!).

## **6. THE DETERMINANTS OF IB ACTIVITY: REVISING AND EXTENDING THE OLI PARADIGM**

In what ways then has the reconfiguration of the purposes of development, and the means by which these purposes might be achieved affected our understanding of the determinants of the competitive or ownership (O) advantages of firms; the value adding attractions of alternative locations (i.e. L advantages); and the extent to which firms choose to exploit or add to their O advantages by internalising the market for them (I advantages), by doing this jointly with, or selling them or their rights to, other firms.

We shall suggest in the following paragraphs that such a reconfiguration is desirable. At the same time we shall suggest that explicit incorporation of the institutions into received theory does pose a number of challenges. Some are to do with their nature, as compared with other (more tangible or easily measurable) forms of the advantages of firms or countries. Some relate to the extent of their cross-border

mobility; some to the closer interface of their origin, form and implementation, between firms and countries; some to the dynamics of institutional change compared with that of (R), (C) and (M); and some to the difficulty of separating the value of institutions as from that of the (R), (C) and (Ms) in where they are incorporated.

Following our previous writings we consider the role of institutions in IB activity by incorporating them into the OLI paradigm; and we shall consider each of these three elements of the paradigm in turn. We shall then take a more dynamic look at the paradigm to see if the institutional related interface between firms and the location of their value added activities in developing countries strongly influences and is influenced by the transformation process of those countries as earlier identified by our three Nobel Laureates

### **5.1 Ownership specific (O) advantages**

In addition to the  $O_a$  and  $O_t$ <sup>26</sup> specific advantages of an MNE, or potential MNE, identified by the eclectic paradigm, we are now adding a third – viz institutional ownership specific advantages ( $O_i$ ). Such advantages comprise the institutional structures of an MNE, which underpin, influence and are influenced by the (R), (C) and (M) owned or access by it. Such an institutional structure consists of a galaxy of both internally and externally imposed incentives and regulations, affecting all areas of the decision process of the firm, and the attitudes and behavior of its workers, and how it relates to other economic and political actors in the wealth creating process.<sup>27</sup> Such incentives may be formal or informal (in the Northian sense) and backed up by the firm's own enforcement mechanisms.

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<sup>26</sup>.  $O_a$  refers to the advantages arising from particular assets (e.g. the stock of (R), (C) and (M) where  $O_t$  embraces the ability of the firm to coordinate these assets (or their usage) both at home and abroad, both within the firm and with those of other firms effectively).

<sup>27</sup>So called 'relational' capital of the firm as examined in Dunning (2002b) and Dyer and Singh (1998) and Kale, Singh and Perlmutter (2002).

By the specific incorporation of  $O_i$  into the eclectic paradigm – and particularly when considering it as part of the response of firms to the NDP, - we are acknowledging (what we believe to be) the increasingly important attribute of the income generating assets of firms. As with the resource based theory of the firm, for  $O_i$  to yield a net competitive advantage (cf the  $O_i$  of rival firms), it must be unique, (to some extent at least) non imitable and sustainable. At the time we recognise that it is the *totality* of the O specific advantages of firms (i.e.  $O_a$  and  $O_t$  which confers upon the firm the necessary assets to allow it to engage in fdi, or increase its foreign value added activities.

While we would accept that the ingredients of  $O_i$  have long been acknowledged, we believe that 20/21 globalization and related technological changes are compelling scholars to more carefully evaluate their contribution to the value added process, both relative to other forms of O specific assets and to what extent, for example, are such institutional changes such as upgrading the level 4 corporate social responsibility or a revision of the patent laws, or a reconfiguration of managerial compensation, or a new form of contract with a partner firm to speed up the innovation processing, or a new enforcement mechanism to reduce opportunistic behavior, or judicious lobbying with governments and/or alliances with NGO to achieve a more environmentally friendly strategy cost effective competitive tools? To what extent are the particular forms of the incentive structure to achieve a particular behavioural goal effective cf other forms. These are questions – and many others like them – which we can only ask in this paper. But we are suggesting that, to better understand the current determinants and effectiveness of MNE activity in developing countries pursuing policies and strategies consistent with the NDP, these questions do need to engage the more serious attention of IB scholars.

The composition and strength of  $O_i$  advantages of firms is likely to be strongly contextual. In particular, it is likely to reflect the character of the macro-institutional infrastructure of the country or countries in which they operate. The extent and ways in which the incentive structure of MNEs, or potential MNEs, of a particular nationality take on board these institutions and adapt them to their particular circumstances is likely to be an important ingredient of the quality of unique and sustainable resources and capabilities. On the one hand, for example, an ethnocentric approach to the institutional management of subsidiaries in a very different institutional culture is less likely to generate the kind of  $O_i$  advantages, than a geocentric approach which externalises that part of the distinctive incentive structures of its global portfolio most useful for organising the (R), (C) and (M) in the particular country(ies) in which it operates.<sup>28</sup>

The institutional portfolio of MNEs is also likely to vary according to the value activities carried out by them and their affiliates and the *raison d'être* for these activities. Thus the 'rules of the game' and enforcement mechanisms to stimulate cost effective innovatory activities – particularly where these are undertaken with a partner – are likely to be very different from those which underpin the conduct of the personnel managers of affiliates to human resource management of that ensuring the employment practices and safety procedures of subcontractors to that of ensuring proper quality control procedures of their local distributors.

With respect to the motives for MNE activity, it seems likely that some kinds of strategic asset seeking fdi is designed not only to gain access to foreign (R), (C) and (Ms) but to the firm or country specific institutions. Particularly this is likely to be the case where the culture of doing business in the home and host countries is

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<sup>28</sup> This idea extends the thoughts of Doz, Santos and Williamson in respect of the kind of O advantages derived by being a meta-multinational (Doz, Santos and Williamson (2001)).

markedly different. Adaptations to the home based  $O_i$  assets of market seeking MNEs – and particularly of those with the least experience of foreign markets<sup>29</sup> may also be required to take account of differences in customer behavior; while the incentive structure underpinning efficiency seeking fdi – particularly in C and between developing low labor cost countries may need modifying because of the different expectations, requirements and values of individual workers and/or labor unions. Lastly, the reconciliation of comparative institutional differences are likely to play a less significant role in the case of natural resource or capital intensive MNEs which invoke relatively few transactions.

What finally of the origin of  $O_i$  specific assets of firms?<sup>30</sup> How can they be optimised? Well, in some cases, such assets (which in principle *could* be of negative value) might be imposed by governments or supranational entities. Examples include patent protection, banking regulations, transparency in laws relating to bribery and corruption, and safety procedures

## **5.2 The advantages of countries**

A review of the literature of the 1970s and 1980s on the attractiveness of particular locations<sup>31</sup> which normally comprise countries or regions within countries, to both domestic and foreign corporations suggests that most emphasis was placed on (a) the costs and quality of particular factor endowments ((R) and (C), (b) the size, character and growth of markets (Ms) and (c) the policies of government, e.g. taxes and fiscal incentives which might affect (a) and (b). In part (c) contained

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<sup>29</sup> Notably some first time small and medium sized foreign investors.

<sup>30</sup> i.e. of firms of one nationality of ownership of another.

<sup>31</sup> As summarized for example in Dunning (1993).

institutionally related variables yet these were rarely spelled out or treated holistically.<sup>32</sup>

Since the advent of globalization – and particularly as a result of the transition of several Central and Eastern European economies and the Chinese economies from Communism to market based economy much more attention has been paid to the quality of institutional structure of countries. Table 5 presents a taxonomy we used in a recent paper (Dunning 2003b) which is an adaptation of a chart which was originally published in UN (1998).

The general proposition which this taxonomy throws up is that the more these conditions favor a particular location, the more MNEs will choose to create or add value to their O specific advantages in that country. Reclassifying and/or extending the variables to more explicitly incorporate institutions then the implication is that the higher the quality (and cost effectiveness) of institutions (as they affect the (R), (C) and (M) of MNEs or potential MNEs, the more likely they will have the ability and motivation to engage in fdi.

Let us now consider the reconfiguration of L advantages demanded by the NDP. This, as Section 3 of this paper has shown, differs in a number of important respects from the ODP both in respect of the objectives of development and means of achieving these objectives. Once these characteristics have been identified, the next task of national governments is to ensure that the incentive structure of society and its constituent wealth creating entities are able to create, organize effectively and utilise the (R), (C) and (M) as demanded by them. To take advantage of being part of a global economy this also embraces the provision of the *specific* institutions necessary to encourage the import by way of fdi or (R), (C) and (M) of foreign firms, which

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<sup>32</sup> An exception includes some of the reports of the United Nations Centre on Transnational Corporations (UNCTC) See e.g. UN (1978, 1983).



when jointly used with those of indigenous firms might create a value added consistent with the country's comparative dynamic advantage. But to do this the recipient country must offer the incentive structure(s) which the foreign firms need if they are tempted to engage in that kind of production – and to do so in an effective and timely manner.

Such location bound institutions ( $L_i$ ) stretch along a huge range . At the one end foreign markets may be influenced by the investment promotion policies of host governments and by the content of bilateral investment agreements which they conclude with foreign firms. At the other, there are a host of policy options, regulations and incentives directed to influencing the entry, performance and exit conditions imposed on foreign investors.

The institutional profile of a country's organizations, particularly as it affects fdi, is strongly contextual. It has, for example, undergone quite significant shifts over the past four decades as governments' attitudes towards the costs and benefits of fdi have fluctuated. But we believe that 20/21 globalization and the NDP is demanding the most radical scrutiny of all of its incentive structures. This is because of the increasing connectivity of economic transactions and the social goals of economic progress which are creating challenges to the working together of very different institutions which have previously been kept separate from each other.

At all levels of national economic and social life, established institutions underpinning behavioural patterns are being questioned. Sometimes these relate to the business practices of firms; sometimes of governments; sometimes of non governmental organisations (NGOs) or special interest groups, e.g. churches and philanthropic organizations; sometimes of supranational agencies. Part of the questioning relates to that of long held and respected belief systems or traditional

globalization which is compelling a re-examination of the moral ecology of different economies not least because its form and content is becoming an L advantage (or disadvantage) in its own right.

Like the  $O_i$  of firms, the  $L_i$  (and changes in  $L_i$ ) are likely to be higher contextual. In our present context we would hypothesise they would differ very considerably both between developed and developing countries and between developing countries. As an example of the latter, over most of the 1970s, 1980s and early 1990s the incentive structures of most East Asian countries were much more conducive to promoting the creation and usage of their (R), (C) and (Ms), and to meeting their developmental goals than those of most Latin American and virtually all sub-Saharan African countries. Without a reconfiguration of the institutions of China, the impressive growth path experienced over the last decade and more would not have been possible. Institutional “inadequacy and mismanagement” both on the part of the organisations (including governments) of several East Asian economies and that of the leading organizations of the richer industrialized countries (including the World Bank and the IMF) explained much of the crisis in the former economies in the mid-1980s.

Finally, the balance between ‘top down’ and ‘bottom up’ incentive structures – that between obligatory and voluntary enforcement mechanisms - is likely to be a strongly culture specific L variable; and as we have already indicated, without sensitivity and understanding on the part of MNEs, may well add to the ‘psychic’ between home and host countries.<sup>33</sup>

There are many other country specific characteristics determining the content of L which we do not have space to deal with in detail. These include the openness of

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<sup>33</sup> This could have interesting implications not only in respect of the location of fdi, but whether a firm should eschew fdi for exports. The theory here which dates back to Hirsch (1976) is that if the costs of reconciling different incentive.....

a country and the extent to which it is engaged in cross-border commerce involving different.....(cf. Singapore with Ghana); the extent to which it is multicultural and tolerant of different belief systems (cf Malaysia with Iran), its stage of development (which may affect the quality of its supportive institutional infrastructure (cf Pakistan with Korea); the institutional demands of its particular industrial structure (cf Saudi Arabia with Hong Kong); its size (cf Sri Lanka with Indonesia); its culture towards wealth creation and entrepreneurship (cf Taiwan with .....); the extent of social unrest or upheaval (cf Colombia with Chile); and perhaps most important of all, the extent of democracy and freedom of action by the main wealth creators in society (cf. Vietnam and Cambodia). In 2003 cf with that of 1980s, or cf Zimbabwe with Botswana).

If nothing else, these few examples show both (a) how important is the  $L_i$  component to a country's locational attractions; (b) how complex the composition and quality of its various components and (c) how much these vary so much between countries – and, for the most part, for very different reasons.

In summary, the goals and contents of the NDP and the impact of 20/21 globalization are the suggestion that L-based institutional advantages should be at the heart of the determinants of IB activity. If North (1999) is right in averring that *institutional* differences in the incentive structures between countries are a critical explanation of their differential growth rates and development paths, and that such growth and patterns of development are an important determinant of fdi, it follows that the extent, form and quality of a country's institutional infrastructure, and its upgrading (as it affects each and every individual and organization involved in the wealth creating process) is likely to impact on MNE activity. There is already much

evidence that this has been so in the case of the transition economies.<sup>34</sup> There is urgent need for more empirical work on the role of institutional upgrading in promoting both domestic and inbound foreign investment.<sup>35</sup>

### **5.3 The I advantages of firms.**

Lastly what of the implications of the 20/21 globalization and the NDP for the modality by which MNEs, or potential MNEs, acquire, gain access to or exploit competitive specific advantages (and particularly their  $O_i$  assets in foreign countries? What are the relative costs and benefits of internalising (the market) for creation or use of these assets or the right to their use? To what extent, in fact, is it possible to license or otherwise contrast out their creation or use.

In explaining the organizational choice of deployment of the  $O_a$  and  $O_t$  assets of a firm in a foreign location, scholars have turned to transaction cost theory. In the case of  $O_a$  the choice between adding value to particular proprietary right (e.g. a patent) by way of a wholly owned affiliate rather than (say) a non-equity licensing or franchising arrangement rests on the balance between such benefits as arresting opportunism, moral hazard and loss of quality control, of relaxing ownership to those of less capital investment (and the risk attached to this) and the access to added knowledge which a contractual agreement might offer. In the case of  $O_t$ , almost by definition, there is no market for such assets apart from their use with  $O_a$ ; therefore they have to be internalised.<sup>36</sup>

What of the use made of  $O_i$ ? We can illustrate by considering two scenarios. The first is where the incentive structure of both firms and society to the creation and

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<sup>34</sup> See particularly Bevan, Estrin and Meyer (2004), and Holland, Sass, Benacck and Groncki (2000) and Meyer (2002).

<sup>35</sup> The World Bank is, in fact, currently undertaking some major research into this very question. However, in this and other research there is a very real problem in operationalising different incentive structures of with the organisations or social capital housing such structures.

<sup>36</sup> These characteristics are explored in several others of my writings. See especially Dunning 2002a, 2002b.

use of (R), (C) and (Ms) in the investing and recipient countries is fundamentally the same (e.g. as between the US and Canada). Then only to the extent to which there are  $O_i$  advantages of the investing firm *additional* to those of the (possible partner) firms in the host country, would the question of the appropriate governance of the cross border transfer of the assets (or their rights) arise. However, in so far as  $O_i$  have to be deployed with the  $O_a$  or  $O_t$  specific to the MNEs then they like  $O_t$  have to be under the ownership of the same firms.

However, the particularly interesting feature of globalization and the NDP is that institutions are likely to differ significantly between investing and recipient countries. This applies no less for South/North and South/South fdi as for North/South fdi. Because of this, the relative merits of alternative trans-border organizational forms are likely to change. At the one extreme (e.g. in some kinds of asset seeking fdi) the incentive structures of the investing company may be totally inappropriate for it to impose on its subsidiary. The choice is either to adapt the incentive structure or engage in joint venture or contractual agreement with a local firm, so that the (other) O advantage transferred and combined with the (R), (C) and (Ms) of the partner firm may be effectively deployed. In such cases, which might be quite common between countries with very different business cultures and/or belief systems (e.g. China and the US) or at different stages of development (e.g. Australia and Vietnam).

At the same time if the incentive structures of the investing firm reflect those which are likely to be eventually embraced by the host countries (as now seems to be happening in the case of UK and German fdi in the Baltic States and in Croatia and Slovenia), then  $O_i$  advantages at least in the initial stages of fdi in an unfamiliar country are most likely to be internalised.

However, as with the form of any foreign involvement, much will depend on the host government's policy towards the foreign ownership of assets. On the one hand liberalization of markets in the 1990s and the need perceived by many developing countries for them to be integrated into the global economy via efficiency seeking fdi, is leading to a harmonisation of intra firm incentive structures. On the other, the increasing attention now being paid to all aspects of corporate social responsibility has encouraged some developing countries to renew their earlier attention to ensure that the performance behaviour of foreign affiliates promotes their economic and social objectives; this includes abiding by their own institutions, and the values and belief systems underpinning them. The response of many MNEs is to prefer to conclude non-equity business relationships (e.g. in the sub-contracting of the early stage manufacturing process in the electronics and textile industries and in transference of call centres from developed.....

As with  $O_i$  and  $L_i$  advantages, the character and significance of those concerned with the vehicle of exploiting or augmenting the accumulated institutional assets of the investing company<sup>37</sup> is likely to be activity specific. In the case of those involving culture sensitive production processes or outputs, or first time investors seeking to supply markets in unfamiliar countries, one might predict that institutionally related transaction costs would be lower if it concluded a partnership with a local firm rather than pursue a go it alone mode of operation. However, global firms with (successful) subsidiaries in countries with similar incentive structures and those in which they have only a marginal impact on the creation and use of (R), (C) and (M) might well prefer 100 per cent ownership of their foreign assets – providing that this was the modality in accord with their other assets.

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<sup>37</sup> Both from its home based and foreign based operations.

Exogenous to their value added activities the last two decades has seen an increasing influence on the modes of institutional governance of MNEs by *other extra organizational* market entities, viz NGOs, national governments and supranational agencies. These are generally fostering a multi-faceted and cooperative approach to institutional upgrading, though some of the recent practices of both NGOs and some national governments would belie this. But at a supranational level there are several serious, albeit halting and not always wise, attempts to try and get the various wealth creating organizations throughout the world – and those which influence the behavior of these organizations by the rules of the game enforcement, to accept a series of common or universal institutions. Such for example is the Global Compact of the UN to which we have already referred (UN 2003). Others include the OECD Guidelines to Multinational Agencies and a bevy of bilateral investment agreements.

Each of these affects not only the level and pattern of MNE activity in developing countries, but also the modality of operation. And it does this by harmonizing and for the most part lowering the transaction costs of the institutions underpinning the business transactions throughout the world. Sometimes along with advances in communication e.g. the internet, this makes for more fdi; in others, by lowering the transaction costs or market exchanges it encourages MNEs to disinternalize their foreign value activities and engage in more subcontracting and other non-equity ventures.

The last decade has been a period of intense cross-border merger and acquisition activity. While this has involved firms in the developed world since 1998, the rate of increase of purchases of corporations in developing countries has outpaced that in the rest of the world. We would suggest that part of the reason for this may well be not only to buy into the institutional assets of the acquired company, but also,

and particularly if the buyer is contemplating expansion or restructuring the product or process portfolio in the host country as a result of the acquisition, to better appreciate the incentive structure of other organizations (including the government).

In short, I would foresee no real difficulty in applying the received internalisation theory to explaining the mode of creating and using  $O_i$  assets of an MNE or potential MNE in a particular host country. There is a proviso to this endorsement. That is that such theory is widened to include issues relating to the *process* of development and embraces not just transactions involving the purchase or sale of products, but to the governance of innovating and production activities as well. For we believe nowhere is the significance of incentive structures – or should we say the *right* incentive structures – more important in influencing the behavior of firms in the creation and use of (R), (C) and (M).

## **6. CONCLUSIONS**

The readers of this paper will quickly realize that I have put together a kaleidoscope of ideas and implicit propositions about both the NDP and how it affects the determinants of IB activity. Apart from the isolated reference and casual .....I have made no attempt to test some of the concepts and views put forward, nor indeed formulate formal hypotheses. That has not been the objective of the paper.

Rather have I concentrated on what I believe to be a topic which though by no means ignored in the development and IB literature, has not been given the attention it warranted. I believe that 20/21 globalization and the emerging approach to understanding the goals and challenges of development is forcing business scholars to give institutions (a la Douglass North) a center stage treatment. It is also requiring that incentive structures be integrated more explicitly into the mainstream paradigms



and theories of IB activity as for example recommended by Wainright and Nicholas (2003). A hint of the way this can be done is set out in Table 6.

In this paper I have outlined the kind of additional institutionally related elements which need to be incorporated in our eclectic paradigm of international production and to the more specific economic and business theories it embraces (Dunning 2000); and also how these may affect the level, pattern of fdi and MNE activity. We have suggested, for example, that globalization and the NDP is causing  $O_i$  to become a more important component both of the competitive advantages of firms and the locational attractions of countries. How much this is the case and what forms of incentive structure are likely to be most conducive to upgrading quantity and quality of its (R), (C) and (M) of firms and countries, is however, likely to be strongly contextual. For example in some cases the  $O_i$  advantages of firms of one nationality can be comfortably transferred to that of another country. In other cases cross country cultural and ideological differences may demand that MNEs or potential MNEs should engage in foreign production only by means of a joint venture or on a contractual basis. More generally our reasoning suggests that the modality by which firms augment or create their O specific advantages outside their home countries is increasingly influenced by the extent to which they can tap into and/or integrate different incentive structures across the globe. In this respect 20/21 globalization and the NDP adds a new dimension to the opportunities and challenges facing MNEs, governments and supranational national entities of balancing the advantages of globalization and the harmonization or coordination of institutions with those of retaining the 'dignity of difference' of the economic, political and cultural composition of national or regional institutions.

In clarifying and suggesting responses to these opportunities and challenges, I believe the IB scholar has a critical contribution to make.

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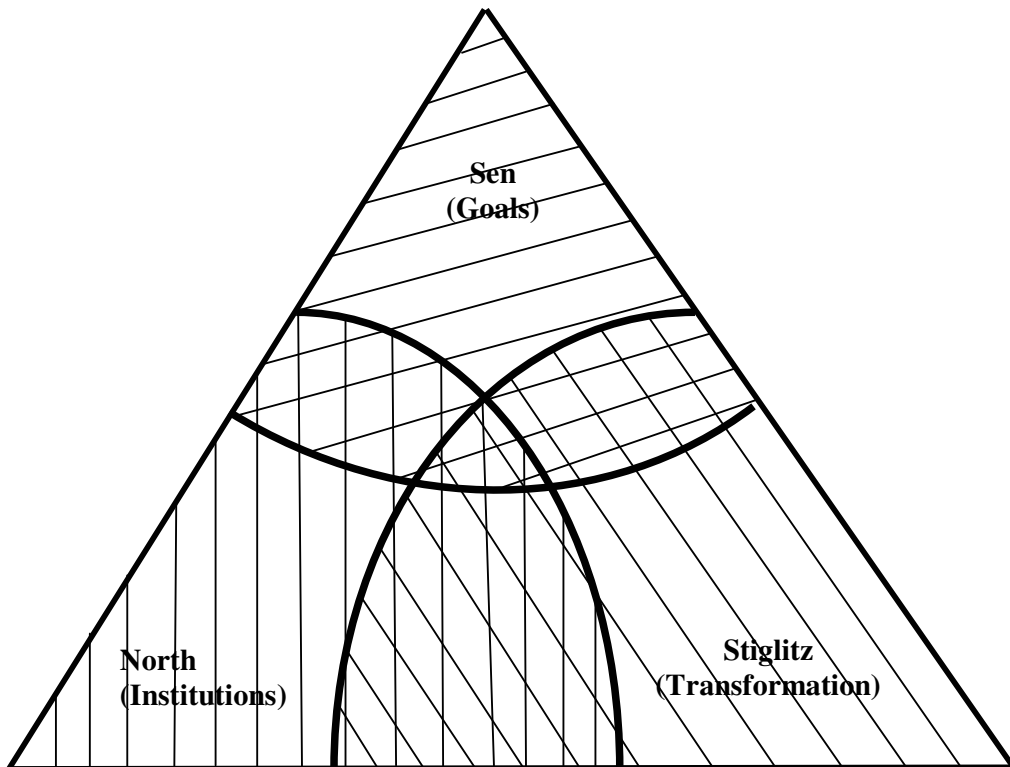
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**FIGURE 1**

**THE SEN/STIGLITZ/NORTH (OVERLAPPING PERSPECTIVES ON THE  
NDP)**



**TABLE 1**

**THE OLD DEVELOPMENT PARADIGM (NEO-CLASSICAL MODEL)**

	<b>MEANS</b>	<b>ENDS</b>
<b>ECONOMICS</b>	<ul style="list-style-type: none"> <li>• <b>NATURAL FACTOR ENDOWMENTS (R) (INCLUDING ENTREPRENEURSHIP)</b></li> <li>• <b>LITTLE ATTENTION GIVEN TO CREATED ASSETS OR CAPABILITIES</b></li> <li>• <b>LIMITED ROLE OF GOVERNMENTS AND INCENTIVE STRUCTURES (PROFIT MAXIMISING ASSUMED TO MOTIVATE WEALTH CREATING ACTIVITY)</b></li> <li>• <b>CULTURAL CONSIDERATIONS LARGELY IGNORED. DEVELOPING COUNTRIES ASSUMED TO BE BACKWARD VERSION OF DEVELOPED COUNTRIES</b></li> <li>• <b>SOME ATTENTION PAID TO ASSET AUGMENTATION, INCLUDING POPULATION GROWTH, BUT VERY LITTLE TO PROCESS OF DEVELOPMENT</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>MAINLY ECONOMIC (GNP PER CAPITA)</b></li> <li>• <b>LITTLE ATTENTION GIVEN TO PUBLIC GOODS OR REDUCTION OF BADS</b></li> <li>• <b>MEANS/E.G. WORKING CONDITIONS) NOT PART OF ENDS</b></li> <li>• <b>DEVELOPMENT PRIORITIES</b></li> <li>• <b>GROWTH IN GNP PER CAPITA</b></li> <li>• <b>LIMITED PAID TO ISSUES OF SOVEREIGNTY, OWNERSHIP, EQUITY</b></li> </ul>

**MAIN STAKEHOLDERS/PLAYERS**

- **MARKET PARTICIPANTS**
- **SHAREHOLDER CAPITALISM**
- **LIMITED ROLE OF EXTRA-MARKET ACTORS**

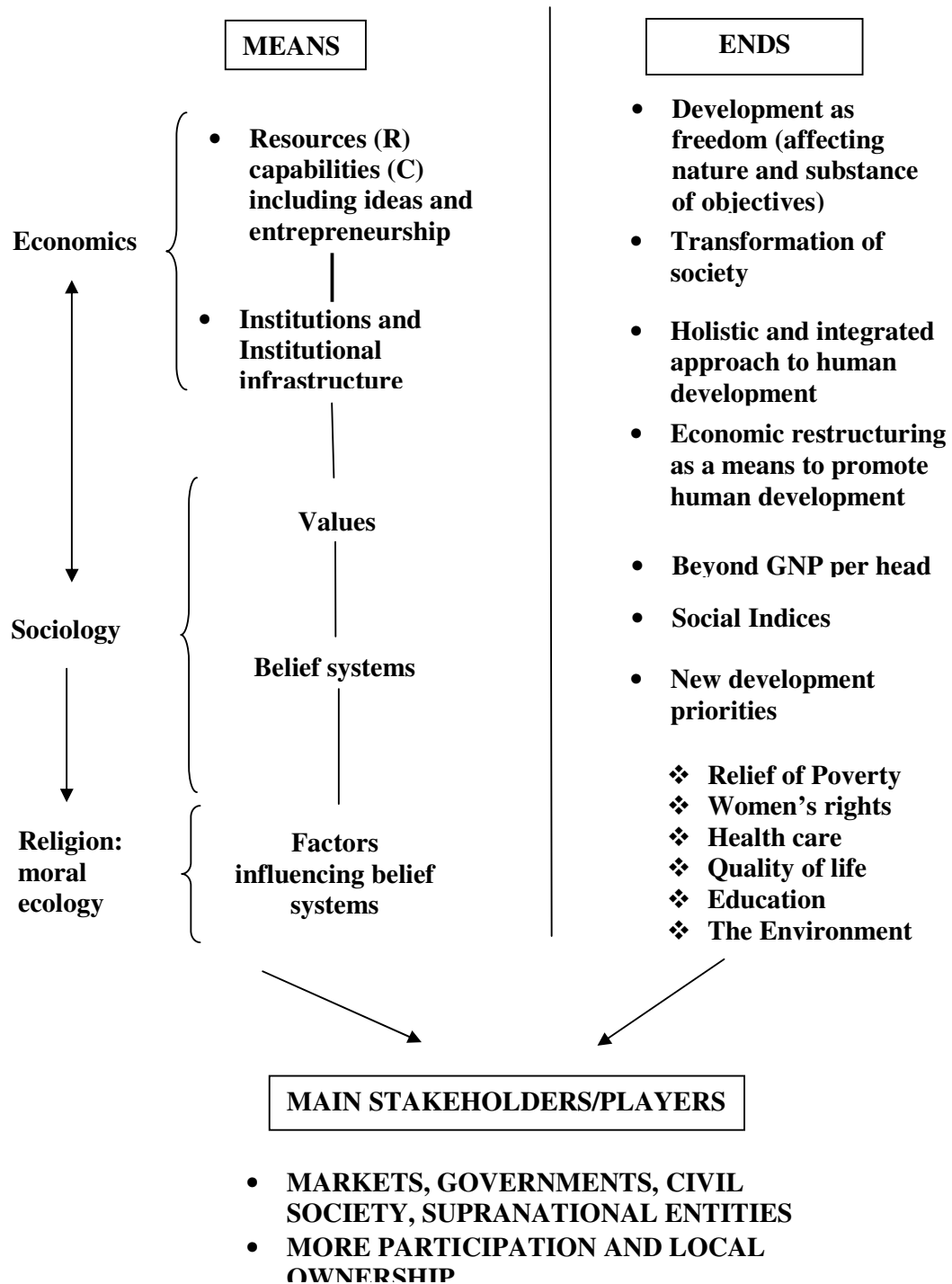
**TABLE 2**  
**SOME KEY FEATURES OF 020/21 GLOBALIZATION**

- **MARKET LIBERALIZATION**
  - (a) **As affecting transition economies (and (some) developing economies**
  - (b) **As affecting all economies**
- **TECHNOLOGICAL ADVANCES**
  - (a) **Transport and communications (leading to increased speed, lower cost, improved quality)**
  - (b) **Other**
- **RELATIVE GROWTH OF ALLIANCE CAPITALISM AND NETWORK RELATIONSHIPS**
  - (a) **Intra firm**
  - (b) **Inter-firm**
  - (c) **Inter-organization (e.g. between governments, NGOs and firms, etc.)**
- **EMERGENCE AND GROWTH OF NEW PLAYERS ON WORLD ECONOMIC SCENES (especially China and India).**

**TABLE 3 THE APPROACH OF THE NOBEL LAUREATES TO DEVELOPMENT**

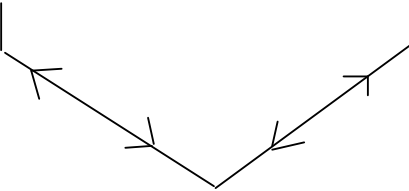
<b>Sen</b>	<b>Stiglitz</b>	<b>North</b>
<b>Freedom of choice</b>	<b>Structural transformation of societies</b>	<b>Increasing importance of institutions</b>
<b>Multifaced in content approach and governance desired</b>	<b>Holistic and dynamic approach</b>	<b>Growth (incentive structures)</b>
<b>Wider concept of goals (over and above GNP per capita)</b>	<b>Emphasis on ownership and participation</b>	<b>Incentive structures and enforcement mechanisms</b>
<b>Development as widening opportunities</b>	<b>Inclusivity and consensus building</b>	<b>Values, perceptions of reality, and beliefs</b>
<b>Different aspects of freedom</b>	<b>Partnerships</b>	<b>Changes in human environment</b>
<b>Public goods/social values</b>	<b>Social capital</b>	<b>Control over decision taking</b>
<b>Culture/human rights</b>	<b>Accumulated learning and experience</b>	<b>Extension of transaction costs to political markets</b>
<b>Institutions matter</b>	<b>The responsibilities of freedom.</b>	<b>'Top-down' and 'bottom-up' institutions.</b>

**TABLE 4**  
**NEW DEVELOPMENT PARADIGM (NPD)**



**FIGURE 2**

**THE DUNNING MODEL**

• STAGE 1 IDENTIFYING THE CONTENT OF THE NDP		
• STAGE 2		• STAGE 3
<b>THE VALUE CHAIN OF THE DETERMINANTS OF 20/21 DEVELOPMENT</b> (Moving backwards) though each interacts with the other		<b>DETERMINANTS OF IBA AS INFLUENCED BY NDP</b>
2(A) (R) + (C) + (M)		3(A) Ownership ( $0_a, 0_t, 0_i$ ) Advantages of Firms
2(B) Institutions/Incentive Structures Enforcement Mechanisms Institutional Infrastructure	↔	3(B) Location Advantages (L) including ( $L_i$ ) of Regions/Countries
2(C) Values/Virtues		3(C) Internalisation (I) (including $I_i$ ) Advantages of Linking 3A to 3B.
2(D) Belief Systems		
2(E) Origins of Belief Systems		
2(F) Triggers to Change		
 <p><b>BOTH STAGE 2 AND 3 OF THE MODEL CAN BE CONSIDERED FROM A STATIC OR A DYNAMIC (PROCESS) VIEWPOINT. FOR EXAMPLE, IN STAGE 2 A CHANGE IN 2⇒2BF IN TIME t+1 MAY AFFECT 2A IN TIME T+1; WHILE IN STAGE 3 (B) A CHANGE IN <math>L_i</math> IN TIME t MAY AFFECT <math>O_i</math> IN TIME t + 1, AND IN STAGE 3(C), A CHANGE IN <math>I_i</math> IN TIME t MIGHT AFFECT <math>0_a</math> IN TIME t + 1.</b></p> <p><b>NB. <math>O_i</math> <math>L_i</math> and <math>I_i</math> are defined in the text of paper.</b></p>		