1. Introduction

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The world of multinational enterprises is changing dramatically. Their complex and dynamic international context presents them with special challenges, threatening their survival on one hand, and presenting them with unprecedented opportunities on the other. Global governance, which affects the way business is conducted, is undergoing significant transformation, and multinationals' ability to rely on traditional sources of competitive advantage is at risk.

The changes in global governance affecting multinationals' strategies, and their impact on society, stem from a number of factors. One principal factor is the formation and evolution of intergovernmental organizations, such as the World Trade Organization (WTO), and various agreements pertaining to trade, environment, labor, competition or investment. Another, equally important, factor is the rise of non-governmental organizations (NGOs), which have a significant impact on strategies of multinational enterprises, governments and intergovernmental organizations (Doh and Teegen, 2003; Teegen *et al.*, 2004; Vachani and Smith, 2004). Both are integral to the process of globalization.

GLOBALIZATION

Globalization implies intercontinental interconnectedness among people, companies, governments, NGOs, and society in general. It is manifested in relatively large and unfettered flows of trade, capital, technology, ideas and people.[1] Globalization creates benefits and pressures of different kinds for a number of stakeholders, and has changed the role of governments, intergovernmental organizations and NGOs in global governance. Multinationals are affected by these transformations, but also contribute to them.

Globalization is not a recent phenomenon. During the first era of globalization, between 1870 and 1914, countries were increasingly linked by trade, investment and migration (World Bank, 2002). Between 1914 and 1945, with two world wars and the great depression, nationalism rose and globalization retreated. After WWII, developed countries worked actively to build, open and stabilize economies, setting up the Bretton Woods intergovernmental organizations, the World Bank and the IMF, as well as the GATT, to promote trade. These governance institutions helped the world become more economically integrated between 1950 and 1980, globalization's second phase, though developed countries participated in this process, and benefited, much more than developing countries.

Since 1980, however, dramatic changes have occurred, marking globalization's third phase. Many developing countries, previously leery of free markets, warmed toward them. Several developing countries implemented liberalization programs, resulting in greater flow of capital and trade. The share of manufactured goods in developing-country exports rose from 25 percent in 1980 to 80 percent in the early 2000s (World Bank, 2002).

Globalization has been aided by exponential growth in people's ability to communicate across long distances relatively inexpensively, which has facilitated the flow of capital, technology and services across borders, and helped multinationals create and manage international value chains. During the first globalization era the transition from sail to steamships helped lower transportation costs. In recent decades sharp decline in telecommunications costs and the formation of the Internet has brought profound changes by dramatically increasing the ability to procure services offshore and share ideas globally.

Globalization has created concern for unchecked negative externalities, shifts in balance of power, and cultural homogeneity, with consequent demands for changes in global governance (Klein, 2000; Korten, 1998). Even globalization's defenders see the need for 'institutional mechanisms to cope with [its] occasional downsides' (Bhagwati, 2004: 222). An important factor determining globalization's effects is the speed with which it brings change. Rapid change poses adjustment challenges, highlighting the need for governance mechanisms to manage 'transitions to globalization' (ibid.) Globalization has also allowed civil society to coordinate activities internationally, thereby enhancing NGOs' influence, and promoting 'globalization from below' (World Bank, 2002: 3).

This interconnectedness, which is central to globalization, does not link every country. Aspects of globalization are manifested at the regional level, in 'subglobalizations' that are 'movements with a regional rather than global reach that nevertheless are instrumental in connecting the societies on which they impinge with the emerging global culture.' (Berger, 2002: 14). Rugman (2001) points out that most multinationals are regional, not global.

Globalization's economic impact has varied across countries. Developing countries that enjoyed greater globalization in the 1990s experienced economic growth averaging 5 percent per annum, versus 2 percent for developed countries (World Bank, 2002: 2).[2] For many of the three billion people fortunate to live in these countries, this growth translated into better, though still inadequate, living standards. About 120 million people inched above the lowest rung at the bottom of the pyramid (incomes of less than $1 per day) between 1993 and 1998. Unfortunately, globalization bypassed several other countries, and their two billion people did not enjoy similar benefits.

GLOBAL GOVERNANCE

> Governance is the sum of the many ways individuals and institutions, public and private, manage their common affairs. It is a continuing process through which conflicting or diverse interests may be accommodated and co-operative action may be taken. It includes formal institutions and regimes empowered to enforce compliance, as well as informal arrangements that people and institutions either have agreed to or perceive to be in their interest. (Commission on Global Governance, 1995: 2)[3]

The commission saw global governance as not only including intergovernmental relations, but 'also involving non-governmental organizations (NGOs), citizens' movements, multinational corporations, and the global capital market.' (Commission on Global Governance, 1995: 2–3).

Given the domain of International Business (IB), which includes social, economic and political aspects of the activities of multinational enterprises, governments and NGOs, and the societies in which they are embedded, I suggest the following definition. *Global governance is a collection of multifaceted, formal and informal institutions, codes and norms, motivated or enforced by international organizations or coalitions, that regulate and facilitate economic, cultural, social and political activity, and its effects on society*.

While the primary domain of business is economic, it is important to focus beyond economic activity to recognize the important social and political effects of business, and the influence that governments and NGOs have on multinationals. It is also necessary to remember that multinationals, governments and civil society can reach across nations to influence governance within them.

As David Levy and Peter Newell discuss in Chapter 7, global governance has multiple shades; it varies in nature (for example, market-enabling versus regulatory), coverage (for example, number of countries participating in an agreement) and degree of formality, and has asymmetric effects on different countries, industries and social groups.

TRANSFORMATIONS IN GLOBAL GOVERNANCE

Ideological Variations

Institutions of global governance are affected by ideological differences across nations that are molded partly by their historical and cultural contexts. As Robert Kudrle points out in Chapter 2, Japanese antitrust law was affected by US occupation and the Cold War. So after WWII, even though large business groups were dismantled initially, this restructuring process was shelved over time in the interest of maintaining industrial strength to face up to communism. Restrictive vertical distribution arrangements survived for decades. The EU's competition policies developed under the broader objective of creating larger markets. So national distribution arrangements were discouraged. The EU places greater weight than the US on limiting adverse impact on competitors, even in the absence of clear harm to consumers. US policy differs markedly from that of other countries in treating antitrust infringements as criminal violations.

Kudrle also notes differences in implementation. The US places more emphasis on the courts, and the EU on administrative action implemented by an independent body, with provision for legal appeal. In Japan, antitrust laws are enforced by the executive, which resorts to warnings rather than penalties. These contextually determined differences in governance institutions create asymmetries in multinationals' resources and strategies.

There have been changes over time as well. Perceptions of the state's role in the economy evolved over the course of the twentieth century. During the 1980s, under the leadership of Prime Minister Margaret Thatcher in the UK, and President Ronald Reagan in the US, greater emphasis was placed on markets, and privatization and deregulation became popular. Many developing countries, where the state previously controlled the 'commanding heights' of the economy – industries such as steel, telecommunications and power – instituted economic liberalization programs, sometimes as part of conditions accompanying the IMF's financial aid packages. In the 1990s, Prime Minister Tony Blair and President Bill Clinton attempted to balance the effects of the market with greater emphasis on social issues. The 'Washington Consensus', with its three pillars of fiscal austerity, privatization and market liberalization, aggressively disseminated by the World Bank and the IMF, came under stinging criticism (Stiglitz, 2002). These organizations have undertaken gradual shifts (in different degrees) toward engaging civil society, which is getting a somewhat more sympathetic hearing (O'Brien *et al*., 2000).

James Post and Tanja Carroll (Chapter 6) point to a critical difference in societies' view of corporations that has governance implications. In the

Anglo-Saxon perspective the corporation is viewed as an 'extension of a basic human right to own property', whereas in the view of many other societies 'critical features of the corporate form – legal status, unlimited life and limited liability – are *not* natural attributes of the individual, but extraordinary privileges granted by the state on behalf of the larger host society'.

Governance of Trade and Competition

> Europe must defend its interests at the World Trade Organisation. (Chirac, 2005: 13)

An important change in global governance is the evolution of regimes for trade, investment and competition. The 1990s and early 2000s saw not only the launch of the WTO, replacing the GATT,[4] but also more aggressive implementation of free trade agreements among smaller groups of countries (for example, NAFTA, the expansion of the European Union, and bilateral trade agreements).[5] Even some small countries, such as Chile, have entered into a wide range of bilateral agreements.

As these free trade agreements can have profound effects on multinational enterprises, it has become important for managers to study the relationship between country context and trade strategy, and how they affect multinationals. Policy changes resulting from trade arrangements may be driven by political maneuvers by powerful nations (or groupings of nations), such as the US, EU, China, Russia, India and Brazil, as well as by smaller 'mavericks', such as Chile, which have come to occupy pivotal positions in the politics of trade negotiations (Vachani, 2004). Under President Hugo Chavez's leadership, Venezuela is catalyzing South American resistance to the Free Trade Area of the Americas in a political challenge to the US administration.

While the GATT, and its successor, the WTO, have made steep reductions in trade barriers since World War II, significant barriers remain, and governments appear determined to protect them. In fall 2005, trade officials from Australia, Brazil, the EU, India and the US met in Geneva to settle differences between developed and developing countries that threatened to derail the Doha round of the WTO. Robert Portman, the US Trade Representative, offered a 60 percent cut in the $19.1 billion US limits for farm subsidies, if the EU reduced its $75 billion subsidies by 80 percent (*Economist*, 2005). As indicated by President Chirac's statement in the face of pressures to reduce agricultural subsidies (quoted at the top of this section), nations view the WTO as a forum where battles must be fought to defend national interest. The winners and losers are many: farmers, labor, consumers, large and small companies, and the underprivileged masses at the bottom of the pyramid, who can see their fortunes radically transformed.

President Chirac exhorted the EU to 'come to grips with globalisation's social consequences' including the adverse effects of multinationals' global strategies, which were driven by short-term profit motives and disrupted employment (Chirac, 2005: 13). His recommendations included modification of the rules of global governance, such as environmental pacts that would go beyond the Kyoto protocol, in addition to strategies to limit erosion of Europe's position in the WTO on agricultural subsidies.

The formation of the WTO has undoubtedly changed global governance significantly. Yet, as Steven McGuire and Thomas Lawton discuss in Chapter 3, IB researchers do not appear to give it much attention. They see the lack of recognition of the WTO as an important player in global governance as stemming from three beliefs: that states are the dominant players, that multinationals are too powerful to be affected by global controls and can mold global governance with their bargaining power, and that the WTO is ineffective without the support of major economic powers such as the US and Europe.

McGuire and Lawton argue that the WTO matters because it affects government policies, which in turn affect multinationals' competitive position and strategies. Its disputes resolution process can affect the resources provided by governments to multinationals, and thereby tip competitive advantage and reduce rents derived from protectionism. This could happen, for example, by changing governments' preference of competing national trade instruments. The implementation of laws resulting from agreements, such as intellectual property rights laws, can affect multinationals' locational decisions.

WTO rulings appear to spare no player, no matter how strong and influential. Both the US and the EU have been handed adverse rulings by the WTO's dispute resolution process that authorized other regions to impose large penalties on them. Powerful players like the US and EU are able to use the process to pressure others more effectively than smaller countries, like the Netherlands and Ecuador, which can ill afford to implement retaliatory action even when authorized by the WTO (Lawrence, 2003).

Competition Policy

Kudrle (in Chapter 2) notes that 'the rapid globalization of business has propelled competition policy to a high place on the international governance agenda'. The 1996 WTO Ministerial discussions identified it as an important issue for international cooperation. While trade agreements have reduced formal trade barriers, these have been replaced by other practices that obstruct the free flow of goods and shift multinationals' sources of competitive advantage. Kudrle uses the term 'competition policy' to refer to antitrust laws, and highlights several issues that affect multinationals' strategies and operations. Nationalism, manifested in official preferences or more subtle mechanisms, discriminates against foreign companies, favoring local producers over local consumers. Multinationals are locked out of national distribution networks, for example, in Japan and Korea, through local control over distribution, or by land use laws. Governments reach into foreign domains with extraterritorial veto over mergers and acquisitions, sometimes exercised to deny competitive advantage to foreign multinationals. Multinationals are, themselves, culprits in distorting the structure of global industries, primarily through cartels. The US recovered $2 billion in fines from companies engaged in price fixing between 1998 and 2001, and the EU collected €1.84 billion in 2001.

Kudrle discusses three approaches to competition policy: cooperation, based on information sharing; harmonization, aimed at policy convergence; and centralization, involving empowerment of a formal, multilateral, governance structure. He calls for greater clarity and predictability in competition policy, which should reduce transactions costs, facilitate business planning and discourage abuse, and counsels against relying on the WTO to achieve these objectives. Instead, he recommends less formal initiatives such as the International Competition Network. Kudrle notes that skepticism regarding the WTO's role in governing competition policy is predicated on several differences in trade and competition policy; for example, trade policy deals with government action pertaining to control over markets, while competition policy pertains to firm action, and tries to balance demands regarding structure and conduct of firms. The concept of free trade is easy to comprehend. There is a greater challenge, at both national and international levels, in developing consensus on what constitutes appropriate competition policy.

NGOs

By the late 1990s, NGOs were a formidable force in international business.[6] For example, they played a key role in the failure of the 1999 WTO meetings in Seattle. Their influence on global governance was less significant before the 1990s. In 1991, the GATT struck down the US government's enforcement of a ban on import of tuna from countries (principally Mexico) that did not require their fishermen to ensure that marine mammals (especially dolphins) were not killed when they caught the tuna. This ruling, favoring trade over environment, mobilized NGOs to oppose

NAFTA. This influenced President Clinton to negotiate greater environmental protection in an ancillary agreement of NAFTA after his 1992 election (Graham, 2000).

In the late 1990s, when the Canadian government had to back down from its efforts to ban the use of a gasoline additive, MMT,[7] after the US Ethyl Corporation filed a complaint under NAFTA's investor-to-state dispute settlement procedure, environmental NGOs' activism rose substantially (Soloway, 1999). Their opposition to NAFTA hardened, and in February 1998 a group of nine NGOs warned the US administration that they would oppose the Multilateral Agreement on Investment (MAI), which OECD countries had been negotiating since 1995.[8] The MAI, labeled 'NAFTA on steroids', was viewed as 'a major and immediate threat to democracy, sovereignty, the environment, human rights and economic development.' (Kobrin, 1998: 98). There was deep concern that it would limit host countries' ability to implement laws protecting workers, health, and the environment. While the MAI might have been doomed anyway by disagreements among the OECD members, NGOs contributed to its demise (Graham, 2000; Kobrin, 1998).

NGOs are clearly having an impact on the evolution of the texture of global governance. The principle underlying the creation of major intergovernmental organizations was multilateralism, 'an institutional form that co-ordinates relations among three or more states on the basis of generalized principles of conduct' (Ruggie, 1993: 11). NGOs' activism has led to the recognition that society is better served if global governance is informed, not just by governments (and multinational enterprises), but also by civil society. This has resulted in a shift toward a more inclusive 'complex multilateralism', in which NGOs represent society's non-elite segments in the institutions of global governance (O'Brien *et al.*, 2000: 206).

Despite the rise of NGOs, the IB research community has been slow to recognize their increasing impact on multinational–government relations, and the implications for multinationals' market and nonmarket strategies.[9] IB research focuses on multinational enterprises, for their value creation through international operations, and governments, for their effect on institutions that govern multinationals. Teegen *et al.* (2004) highlight how the addition of NGOs affects the IB research agenda. They propose a co-evolutionary perspective to study the interaction of NGOs and institutions. NGOs are affected by the business systems in which they exist (and which vary across countries) and, in turn, stimulate evolution of their institutional context. The inclusion of NGOs is especially important for broadening the multinational–government bargaining framework, which has constituted an important stream of IB research (Eden and Lenway, 2001; Kobrin, 1987; Vachani, 1995; Vernon, 1971).

Several authors in this volume include NGOs in their analysis. John Ahlquist and Aseem Prakash (in Chapter 5) trace forces that have resulted in activism by citizens' groups, who suspect that governments are more sensitive to multinationals' interests than the welfare of labor, consumers and other stakeholders, when they negotiate international agreements. The lack of transparency in deliberations of intergovernmental organizations, for example, the WTO's dispute resolution proceedings, heightens skepticism. They suggest it is not always easy to predict if multinationals and NGOs support or oppose regulatory regimes, and if they prefer national versus supranational governance. For example, multinationals might be expected to oppose regulations that curb corporate activity, but some companies may favor arrangements that give them an advantage over others. While some multinationals might prefer supranational governance to move beyond the reach of domestic non-governmental adversaries, others may favor national governmental regulation if they have influence at that level.

Carlos Rufín (in Chapter 4) points to the dramatic spread of democracy in the 1980s as instrumental in giving rise to NGOs, and the demands for government accountability. He suggests that increased NGO activism, combined with developing countries' institutional weaknesses, makes multinationals' investments in infrastructure especially vulnerable. As governments respond to NGOs' pressures by changing the bargain with multinationals there is less opportunity for multinationals to find legal recourse than in developed countries. Reform has often been implemented with inadequate participation of civil society, and poor communication with consumers, reducing the legitimacy of multinationals' investments.

Jonathan Doh (in Chapter 10) discusses the pressures multinationals face to engage in activities with more tangible social benefits, and how alliances with NGOs can help relieve this pressure by enabling multinationals to be more socially responsive. Jeffrey Hart (in Chapter 11) describes the broadening in focus of the G8's cyberspace governance to include bridging the digital divide, which he traces to criticism from NGOs about a democratic deficit in governance. This led to a multi-stakeholder approach in which NGOs were invited to participate.

IMPLICATIONS FOR MULTINATIONALS, GOVERNMENTS AND OTHER STAKEHOLDERS

Multinational enterprises have a tremendous impact on their environment, especially on societies they interact with through marketing, manufacturing and procurement. For example, in industries with life-saving (or life-enhancing) products, such as pharmaceuticals, strategies of differential pricing can contribute significantly to social welfare (Vachani and Smith, 2004). These strategies, which can simultaneously benefit shareholders and poor consumers, are deterred by barriers that can be overcome through cooperation among multiple stakeholders: multinational enterprises, host governments, home governments, NGOs and intergovernmental organizations. Examples like these underscore the importance of multinational managers recognizing the motivations and roles of different players in global governance, and formulating nonmarket strategies that may include striking alliances with them to mold and navigate their international context.

Nonmarket strategy can help multinational enterprises proactively influence their context (Baron, 2000; Boddewyn, 2003; Ghemawat and Vachani, 2002). In Chapter 7, Levy and Newell observe that multinationals are not only affected by global governance but actively participate in its development. They stress it is important for multinationals to proactively develop strategies and organizational competence to deal with opportunities to shape the agenda and enhance their chances of influencing perspectives and approaches to regime development. They point to examples such as the fossil fuel lobby's 'unprecedented influence' on US climate policy, and chemical companies' impact on the Montreal Protocol for ozone depleting substances, as evidence of increasing privatization of governance.

Post and Carroll (in Chapter 6) redefine modern corporations as 'extended enterprises', subject to diverse governance mechanisms that vary in the extent to which participation is voluntary or mandated, and in which interaction may range from adversarial to collaborative. The goal of this redefinition is to broaden the managerial agenda to include concerns of those both voluntarily and involuntarily associated with companies. Post and Carroll analyze how relationships with different stakeholders serve as inimitable resources and contribute to organizational wealth, and suggest that the network of relationships constitutes the company's governance system. Organizational wealth can be enhanced by trustworthy behavior, which legitimizes governance. Corporations are experimenting with greater transparency, accountability and stakeholder engagement as ways to enhance trust.

In reviewing multinationals' nonmarket environment, Ahlquist and Prakash (in Chapter 5) predict greater demand for stronger supranational institutions that affect multinationals' operations, which face citizen group pressures in the market and nonmarket environment at the domestic and supranational levels. They expect national governments to remain responsive to domestic interests. They see this as creating a need for multinationals to engage in rather complex versions of Putnam's (1988) 'two-level games' with coherent supranational market and nonmarket strategies that simultaneously address variations in country characteristics.

Levy and Newell (in Chapter 7) underline the delicate and complex nature of multinationals' task as they attempt to influence the course of regime development; they can lose control over the process and end up facilitating unfavorable outcomes. Levy and Newell suggest that multinationals' posture toward governance negotiations can vary with their position on the value chain; for example, in the biotechnology industry, companies like Cargill, which were at the consumer end of the value chain, did not resist stringent regulatory controls as vigorously as companies like Monsanto that were at earlier stages, relatively distant from consumers. They suggest that multinationals' attitudes toward governance, manifested in corporate political activity, are also affected by home country norms (Lin, 2001); for example, European companies engage in less adversarial lobbying than US companies (Coen, 1999).

Multinational–Government Relations

IB researchers have long been interested in multinational–government relations and the strategies of multinational enterprises in international environments strongly influenced by governments (Boddewyn and Brewer, 1994; Eden and Lenway, 2001; Grosse, 2005; Kobrin, 1987; Vernon, 1971). Savvy managers who develop a nuanced understanding of multinational–government relations can succeed in turning adversity into opportunity; for example, by using preemptive strategies that anticipate hosts' needs and signaling a willingness to tradeoff the multinational's objectives with those of the host (Encarnation and Vachani, 1985).

Even in 'normal' circumstances the bargain struck between multinational enterprises and governments evolves with time (Eden and Lenway, 2001; Kobrin, 1987; Vernon, 1971). Various factors associated with the multinational and its context affect the static and dynamic manifestations of bargaining success with host governments (Vachani, 1995). With added complexity resulting from shift in global governance, the texture of multinational–government relations is changing, and calls for reexamination of both market and nonmarket strategies (Boddewyn, 2003; Ghemawat and Vachani, 2002).

In Chapter 8, Pervez Ghauri and Xuefei Cao examine the evolution of relations between multinational enterprises and governments, which have become considerably more interdependent with time as multinationals have grown to control impressive shares of trade and technology transfer. How this interdependence is managed affects the distribution of value created from improved technology, communications and productivity. Levy and Newell (in Chapter 7) suggest extending the bilateral bargaining framework to include NGOs and international organizations. They see multinationals deriving power from their technical expertise, which allows them to be involved in standard setting and gives them the strategic opportunity to frame the agenda in the development of multilateral regimes, and influence the level at which regulations are enforced. For example, in some industries multinationals may prefer regulation at the national level if they feel they lack influence at the international level (Levy and Egan, 1998). However, in market-enabling regimes, such as those for intellectual property rights, they suggest multinationals favor multilateral arrangements where NGOs' influence is weaker (Sell, 2002).

Focusing on infrastructure investments in Chapter 4, Rufín notes that, while developing countries eased restrictions on FDI inflow, liberalization did not appear to have improved multinational–host relations. Multinational enterprises were sought for their capital and technology, but with time the obsolescing bargain emerged across a range of countries. As local currency value declined, multinationals that had invested in infrastructure such as power generation, where revenues were local and costs in foreign currency, were more vulnerable than multinationals in extractive industries, where costs were local and revenues denominated in hard currency. Given consumers' inability to absorb higher prices for essential goods and services, historical suspicion of multinationals, and governments' need to win votes, multinationals found themselves facing gradual expropriation. As Rufín notes, in 2002, during the Argentinean economic crisis, the government suspended convertibility of the peso and simultaneously froze utility rates in violation of contracts with multinationals.

In Latin America today, even if reforms appear to welcome FDI, multinational enterprises risk being painted as exploitative during economic crises. Rufín recommends that reform programs provide for greater involvement of local companies in infrastructure management, which would help develop pro-reform stakeholders and strengthen local capital markets. Alluding to the example of Electridad de Caracas, he suggests firms can enhance legitimacy by sharing ownership with local stockholders (Gómez-Ibáñez, 2003). This echoes strategies adopted in the 1970s by some European and US multinational enterprises in India, which spread ownership among thousands of domestic shareholders while retaining management control. They not only preempted penalties placed on foreign firms, but succeeded in being treated on a par with local companies and creating new investment and diversification opportunities (Encarnation and Vachani, 1985).

Rufín suggests that multinational enterprises would be well served to seek greater legitimacy not just for themselves, but for the reform movement as a whole; for example, by pushing for greater transparency in regulatory decisions, rather than attempting to exploit opaque systems that might promise benefits. Strategies for enhancing legitimacy may prove more effective than legal recourse when the environment is institutionally weak. Greater legitimacy, and support of local stakeholders, can blunt opportunistic demands to erode the bargain with which multinationals entered the host country. Alliances with NGOs can be critical in achieving these objectives.

Multinationals' Self-governance

Globalization has created concern about the state's inadequacy in addressing problems associated with globalization (Florini, 2003; Strange, 1996). Multinational enterprises are criticized for 'racing to the bottom', rushing to move operations to countries with lax labor and environmental standards (Spar and Yoffie, 2000). Environmental degradation can cause great harm through spread of disease and deprivation; for example, inappropriate use of fertilizers and pesticides can poison farmworkers (United Nations Development Programme, 2000). However, the impact of trade and foreign direct investment on a host country's environment is often difficult to assess. It can have positive effects in some parts of the value chain and negative effects elsewhere (United Nations Development Programme, 2005). For example, as China liberalized cotton imports, land under cotton cultivation shrank, reducing use of pesticides and fertilizers and helping the environment (United Nations Environment Programme, 2002). On the other hand, textile production grew with higher cotton imports, increasing water pollution and consumption. Export earnings increased but so did the cost of resource use and environmental damage. The effect on employment was negative in cotton cultivation, but positive in textile manufacture. With globalization, environmental standards in some countries and industries may rise as they are diffused through global value chains and as foreign customers' expectations induce companies to raise standards (Christmann and Taylor, 2001; Lundan, 2001).

Doubts about governments' inability, or unwillingness, to deter neglect of environmental, ethical and labor standards, by multinational enterprises and their suppliers, has led to NGOs and industry associations promoting development of standards that multinationals can adopt voluntarily. As Petra Christmann and Glen Taylor explain (in Chapter 9), this alternative system of governance 'intends to govern corporate conduct by substituting standards established by various stakeholders for government regulations, and independent auditors that certify compliance for government monitoring'.

The greater the participation of multinational enterprises in voluntary adoption of standards, the greater the chances that such standards can serve as credible governance mechanisms. Multinationals are motivated to participate in the system to enhance their image in the eyes of important stakeholders, such as customers, shareholders and employees. The adoption of standards can be slowed by proliferation of multiple, competing, standards. Christmann and Taylor discuss three approaches to standard setting. The technical approach, typical of groups developing engineering codes, has produced standards such as ISO 9000 (for quality) and ISO 14000 (environmental management systems). The social responsibility approach, favored by advocacy NGOs, led to the SA 8000, an international workplace and human rights standard. The industry-centered approach, used by industry associations, attempts to bolster the reputation of industries with codes such as the 12 principles for socially responsible garment manufacture developed by the Worldwide Responsible Apparel Production (WRAP) organization.

Voluntary standards offer strategic options for multinationals, giving them an opportunity to enhance their reputation, segment consumer groups and price differentially, and, when adoption requires a certain level of resource commitment, create barriers for competitors poorly positioned to muster resources. Adoption of standards can be profitable, as variable costs are sometimes a fraction of the price premium selected customers can be charged. If coffee shops charge 15 cents extra per cappuccino made with 'fair trade' coffee, they get to keep 85 percent of the price premium, even while the supplier, such as Cafedirect, pays poor Guatemalan farmers a higher price for coffee beans that nearly doubles their income (Harford, 2005). Of course, some companies might choose not to charge customers a price premium and reap the benefit in good will or employee morale.

Post and Carroll (in Chapter 6) suggest that companies have the opportunity to build trust among stakeholders by endorsing broad sets of principles; for example, the CERES Principles for environmental conduct. Over 70 companies, including multinationals like Bank of America and Ford Motor Company, that have endorsed these principles, issue annual reports on their environmental performance and engage in discussions with relevant stakeholders to improve performance. Levy and Newell (in Chapter 7) observe that decision making tends to be quicker in 'private regimes', which also protect companies from state regulation, reduce costs, and open markets. States might also benefit from lower enforcement and other costs, which has led to private–public cooperation in some instances.

NGO Relations

The most enterprising multinational enterprises are poised to reach into the bottom of the pyramid, which comprises the poorest third of the world's population, to benefit these people as well as multinationals' shareholders

(Prahalad, 2005; Prahalad and Hammond, 2002). Some multinational enterprises have developed innovative programs to address their needs by aggregating demand, extending reach, cutting costs, and developing markets and opportunities where none seem to exist (Jain and Vachani, 2006). Their effectiveness depends on factors ranging from the nature of global institutions to the interactions between multinationals, governments and NGOs. This requires crafting innovative market and nonmarket strategies, including alliances with multiple stakeholders such as NGOs and governments. Such coalitions were advocated, for example, by the Digital Opportunity Task Force as a way to help disadvantaged segments gain better access to information and communication technologies, as discussed by Hart in Chapter 11.

As Doh suggests in Chapter 10, alliances with NGOs present multinational enterprises with both opportunities and challenges. NGOs can provide multinationals with scarce resources and enhance their legitimacy in the face of pressure from stakeholders demanding action to address environmental and other social concerns. But differences in NGOs and multinationals pertaining to mission, values, structure and leaderships' attitudes and experiences can pose serious problems. Doh presents a model that explains the propensity of multinationals to form alliances with NGOs. His model includes factors at multiple levels: country (for example, institutional development and culture), industry (for example, level of technology and regulation), organization (for example, financial performance and stakeholder orientation of companies, and sector and orientation of NGOs), and individual (for example, experience and education).

Hart (Chapter 11) notes that a multi-stakeholder approach can increase trust in governance mechanisms, which is enhanced when criteria for participant inclusion are clear. Not all stakeholders are enthused with the multi-stakeholder approach. In the Digital Opportunity Taskforce initiative, while NGOs were happy to be included, business representatives viewed NGOs as 'interlopers who not paid their dues' to justify their seat at the table. Government representatives were unsure whether business deserved access to international governance bodies, but if it did it was preferable to also include its critics.

Levy and Newell (Chapter 7) caution against generalizing multinational–NGO relations as adversarial. They note that multinational–NGO alliances can provide business with 'legitimacy, networks of contacts, and a degree of scientific expertise', while business can offer NGOs 'financial resources, global organizational reach, and the prospect of direct influence on the industrial practices'. Governments, facing resource constraints, also seek out collaborations with NGOs and multinational enterprises. They suggest this does not mean the state's influence is declining; states may actually be expanding their regulatory reach using a network of relationships with companies, NGOs and intergovernmental agencies.

Competitiveness

Managers of multinational enterprises, as well as large and small domestic companies, need to appreciate how institutional changes affect competitiveness. For example, liberalizing environments can have an asymmetric effect on the sources of competitive advantage of different kinds of companies: multinational enterprises, large local companies, state-owned enterprises and cottage firms (Vachani, 1997). McGuire and Lawton (in Chapter 3) discuss how multinational enterprises can use the WTO to create conditions favorable for enhancing competitive advantage. This depends on multinationals' ability to mobilize globally, present coherent and feasible proposals for framing the rules of trade, investment and competition, and effectiveness in convincing diverse governments to accept those changes.

Small-firm competitiveness in developing countries

As Lou Anne Barclay describes in Chapter 12, exporters from small economies like Jamaica may be especially vulnerable to adverse effects of liberalization. Many small exporters tend to have low-cost, low-differentiation strategies, and rely on foreign distributors who wield power over them. Their competitive position is not particularly strong to begin with, and the enhanced local competition accompanying liberalization could have a serious adverse impact. Such environments also have some more competitive companies, which rely on differentiation strategies, and are better able to weather liberalization's effects.

Local institutional and infrastructural support is often inadequate to help small exporters survive. In Jamaica, for example, companies complain of challenges such as high energy and input costs, serious security issues, and poor information about market opportunities. Barclay reiterates the observation of previous researchers that the viability of local manufacturers in small liberalizing economies is critically dependent on concerted action by firms and the government (Wint, 2003).

The need to focus on the challenges faced by SMEs is not limited to developing countries. Imbalances in economic growth rates across countries have also forced developed-country SMEs to seek foreign markets; for example, the extended recessionary conditions in Japan resulted in SMEs investing abroad in increasing numbers, and facing serious challenges stemming from institutional and other factors (Vachani, 2005). The challenges facing SMEs can be worsened by multinationals' maneuvres. Levy and Newell (in Chapter 7) note that multinationals might favor stricter regulations if asymmetries in the ability of large and small companies to deal with regulations put SMEs at a significant competitive disadvantage, as is reported to have happened in the promotion of ISO 14001 standards (Clapp, 1998).

Leveraging Country Governance Quality

Companies in home environments with weak governance standards suffer a disadvantage in capital markets, which place greater confidence in investment opportunities that assure high governance standards. Companies could signal higher adherence to governance standards by cross-listing their securities in countries with high governance standards. Paul Vaaler and Burkhard Schrage (in Chapter 13) test whether the extent of US cross-listing by foreign companies can be explained by home country governance quality (HCGQ). They find an inverse relationship between extent of US cross-listing and HCGQ only for emerging market countries, and not for home countries at lower or higher ends of the governance quality scale, presumably because the costs of cross-listing are perceived to exceed benefits at the two ends.

CONCLUSION

There are significant transformations occurring in global governance with evolution in the role of intergovernmental organizations, like the WTO, greater NGO activism, and change in relations between multinational enterprises, governments, NGOs and intergovernmental organizations. It has become especially important for IB researchers and managers to understand the implications of these changes for various stakeholders.

The forces transforming global governance are unlikely to abate. For example, as the information revolution has made it possible for multinational enterprises to implement radical cost savings through 'offshoring', by reconfiguring their value chains, the asymmetric effects on stockholders, consumers, and workers in different countries have led to protectionist calls for government action to change the institutional environment for trade in services. This has consequences for multinational enterprises, which are challenged as it is by the need to formulate offshoring strategies to effectively align their resources with opportunities (Foulkes *et al.*, 2005). It also has implications for the workforce in home and host countries (Foulkes *et al.*, 2006; Mann, 2005).

Organization of the Book

The following chapters include several themes that have been introduced in this chapter. While the chapter is organized into two broad sections, one on transformations in governance and the other on implications, the following chapters are not similarly grouped as they cut across both topics. However, they differ in degree of emphasis. The early chapters have a greater emphasis on shifts in governance and the later ones on implications.

NOTES

1. There are many definitions of globalization. Their scope is limited by researchers, depending on their perspective. For example, Bhagwati (2004: 1) focuses on *economic* globalization and defines it as constituting 'integration of national economies into the international economy through trade, direct foreign investment (by corporations and multinationals), short-term capital flows, international flows of workers and humanity generally, and flows of technology'. Prakash and Hart (2000: 2) define economic globalization as 'the increasing integration of input, factor and final product markets coupled with the increasing salience of multinational enterprises' (MNEs) cross-national value-chain networks'.
2. While some researchers have found a correlation between openness and growth (for example, Dollar, 1992), there is debate about causality, and concern about identification issues; for example, it is difficult to identify if growth results from openness or stronger institutions, as liberalization programs often promote both simultaneously.
3. The commission was set up in 1992 at the initiative of former West German Chancellor, Willy Brandt. It was co-chaired by Ingvar Carlsson (former Swedish Prime Minister) and Shridath Ramphal (former Commonwealth Secretary General) and had 28 members from around the world who served in their individual capacity. Its aim was 'to contribute to the improvement of global governance' (Commission on Global Governance, 1995: 368) at a time when 'global society faced the forces of both integration and division' (366).
4. The WTO has a broader mandate than the GATT, extending to agricultural liberalization, services, investment, and intellectual property rights. It also has a dispute settlement process with more teeth, providing greater coercive powers to resolve disagreements stemming from national laws.
5. There is debate about the pros and cons of bilateral and regional trade agreements, which run counter to the spirit of the WTO's most-favored-nation principle. See, for example, discussion in Schott (2004).
6. Teegen *et al*. (2004: 466) define 'social purpose' NGOs as 'private, not-for-profit organizations that aim to serve particular societal interests by focusing advocacy and/or operational efforts on social, political and economic goals, including equity, education, health, environmental protection and human rights'.
7. Methylcyclopentadienyl manganese tricarbonyl.
8. These NGOs were the Center for International Environmental Law, the Community Nutrition Institute, the Defenders of Wildlife, Friends of the Earth, Greenpeace, the Institute for Agriculture and Trade Policy, the National Wildlife Federation, the Sierra Club and the World Wildlife Fund (Graham, 2000: 40). Other powerful organizations, including the AFL-CIO, United Steelworkers of America, Oxfam and Amnesty International, joined the opposition movement (Kobrin, 1998).
9. IB research that has noted the impact of NGOs on international business includes Doh and Teegen (2003); Ghemawat and Vachani (2002); Kobrin (1998); Teegen *et al*., (2004).

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