The multinational enterprise, development and the inequality of opportunities: a research agenda

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The multinational enterprise, development and the inequality of opportunities: a research agenda

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The multinational enterprise, development and inequality of opportunities: a research agenda

Abstract

The potential of multinational enterprises (MNEs) to accelerate economic development and reduce inequality has been recognized since the industrial revolution, when states sought to actively engage foreign capital in industrialization. Over time, the MNE-state compact has waxed and waned in significance due to (geo-)political developments, shaped in part by how the economic surpluses of foreign capital were distributed between domestic actors. Government policies matter as to how they prioritise international competitiveness relative to domestic inequality reduction. The contemporary rise of within-country income inequality alongside increasing globalization has drawn attention to the causes of inequality (including the activities of MNEs) to the forefront. Scholars in development studies have examined the underlying causes of increasing income inequalities through the lens of inequality of opportunities. We discuss how adopting this lens could advance our understanding of how MNEs influence inequality, directly and in interaction with the state. Subsequently, we propose a research agenda, taking into account micro-, meso- and macro-level perspectives. In our discussion, we explicitly highlight that the MNE-state compact is dynamic, continuously changing with the evolving political and socio-economic landscape. MNEs can have an impact on inequality of opportunities, contingent on the nature of their engagement with states and other stakeholders.

Keywords: multinational enterprises (MNEs); policies; inclusive development; inequality, regulation, political economy.

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

Desmond Tutu.

1. INTRODUCTION

Since the beginning of the 21st century, the increasing disparity of within-country incomes around the world has caused a renewed interest in the topic of inequality. The UN Sustainable Development Goals (SDGs) consider the reduction of inequality as a goal in its own right, as well as a *sine qua non* to most of the other SDGs. Rising inequalities inhibit sustainable development, as well as having a destabilizing effect on societies, as is widely documented in sociological research (Wilkinson & Pickett, 2017).

In addition to diverging incomes, the hallmark of the past four decades has been the rapid pace of globalization. A variety of scholars have therefore suggested that globalization (a major component being the cross-border activities of multinational enterprises (MNEs)), and within-country inequality are connected (e.g., Milanovic, 2016). The relationship between inequality and MNEs is seemingly paradoxical, as their activities have been argued to enhance inequalities within countries while also reducing inequalities between countries (Bourguignon, 2015). The underlying mechanisms of these seemingly conflicting outcomes of MNE activity for inequality are poorly understood, partly because it is challenging to establish causal links between societal outcomes and MNE activity. These links are not always direct, nor do they always manifest immediately, and there are considerable empirical challenges in attribution. Regardless, even on a conceptual level, the subject of inequality has remained at the periphery of International Business (IB), despite the growing interest in related social science disciplines.

A growing stream of research considers that being able to determine how income is generated, by whom, and why (the traditional objective of much of research in economics) does not help to answer why poverty (or low incomes) stubbornly persists among certain individuals or groups. A nascent literature takes the view that understanding recalcitrant (and increasing) income disparities requires moving away from analysing income level outcomes to study their underlying social, societal and political causes. The pioneering work of Sen (1999) and Banerjee and Duflo (2011) developed the argument a primary cause of persistent income inequity is the existence of *inequality of opportunities*. Inequality of opportunities are the result of individuals (or groups) in society being deprived of opportunities to achieve their desired outcomes due to factors outside of their control. These factors include (but are not limited to) gender, ethnicity, class, caste, location, and parental income, resulting in unequal access to work, education, healthcare, (social) capital, etc. (Bourguignon et al., 2007). In part, inequality of opportunities reflects the priorities and biases of society and the state. For instance, most societies have historically considered women to be unequal to men. This bias is still considered legal in all but 12 countries in the world (World Bank, 2022). Other opportunities may be determined by passive or active government intervention. For instance, states often selectively prioritise the welfare of particular regions and cities.

The focus of both policy-makers and scholars, until recently, tended to be on the role of Foreign Direct Investment (FDI) in the convergence of incomes *between countries.* Although the field of IB has been engaged this development issue from its inception (see Buckley et al., 2017), its focus, like economics, has primarily been on improving country-level outcomes; aggregate measures of income and wealth. Only in the last three decades has the literature carefully considered MNEs and *within-countries* income inequality. Section 2 of this paper reviews the historical and more 'traditional' engagement of IB with development and inequality, initially in the guise of 'foreign capital' during the industrial revolution and until the early 20th century, and later, as, and most recently, in the context of Global Value Chains (GVCs).

In our historical overview of income inequality and MNEs, we highlight the critical role of states and their governments that have sought to raise the welfare and prosperity of their societies through industrialization. The kinds of inequality reduction pursued depended to some degree on whom the state prioritised within the domestic economic milieu: traditional landowners, organized labour, domestic industrialists, or MNEs. While these state (economic, moral, ethical and societal) priorities have oscillated over time, for the vast majority of countries, development has always relied on foreign sources of capital, technology and skills.

In more modern terms, MNE-led development has always relied on the complementarity of the resources of the state and the MNE, although there is rarely a perfect alignment of objectives. Nonetheless, the state has historically created the conditions for MNEs to earn rents through privileged access to markets, and made available critical location-specific assets. The MNE, in exchange, has been expected to contribute to the state-defined development goals, be these about employment, training, or sharing its surpluses with the state or domestic actors (Narula & Dunning, 2000).

Our historical overview makes two points. First, that MNEs have, through action or inaction, directly and indirectly affected inequalities of opportunities in their host locations. Second, this capacity of MNEs (or foreign capital) to affect inequalities – for better or worse – remains dependent on the (imperfect) MNE-state compact. Therefore, In Section 3, we pivot away from the historical and evolutionary perspective that underlines the complex and sometimes contradictory objectives of MNEs and states, to a more contemporary perspective on MNEs and inequality of opportunities in its host locations.

It is important to note that the MNE can either, through *passive* means, reproduce the inequality of opportunities in its environment, or it may seek *actively* to modify these extant opportunities within its operations. In section 3, we consider both sets of mechanisms by which MNEs may influence inequalities of opportunities, reflecting on three levels of analysis: (i) the micro-level, which focuses on how intra-MNE policies and practises may influence inequalities; (ii) the meso-level, which considers how the MNE-state compact shapes inequalities through its effect on industrial policies, economic structure and GVCs; and (iii) the macro-level, which examines how MNEs role in MNE-state compact can influence the priorities of the state in addressing inequalities. We highlight the most salient mechanisms, which we consider the most promising avenues for future research (at each level), to shed light on the seemingly paradoxical relationship between MNE activity and inequality.

2. A BRIEF HISTORY OF INCOME INEQUALITY AND THE MNE

Inequality, development and growth are closely related concepts, but they are only very approximate synonyms, and sometimes, easily mistaken for each other. The conventional view in the IB field is that economic development is about economic growth, and both are proxied by aggregate income levels and changes in these levels. Although Adam Smith did consider poverty in his classic treatise, the primary thrust was 'the wealth of nations'. The issues of poverty and inequality have traditionally been regarded separately from economic growth, perhaps due to an implicit belief that a rising tide would raise all boats.

Shifting values, morals and sentiments in societies also change over time, and it is common to view the values of one society as universal to humanity; however, they are rarely so, and this is mirrored in the heterogeneity of political regimes. Universal health care, for instance, is taken as a fundamental right in the EU, but not in the USA. Democratic states have not always considered the welfare of the general population as their priority, as every society and each epoch have their own hierarchy of whose welfare is prioritised (or disregarded) relative to others, e.g., some states emphasise the benefits of the political elites and traditional landowners, as is the case in more feudal settings. Industrialization saw domestic industrialists (who can be a distinct group from landowners) added to this pecking order. Small-scale entrepreneurs and farmers, as well as the (landless) workers were historically neglected until late in the 19th century in Europe (Landes, 2003).

***Figure 1 about here ***

In this section, we make two points (see Figure 1). First, states (or the political elites) have not necessarily pursued policies to generate wealth and economic growth because they have sought to create equity within society at large, but to increase private benefits to key groups that help them achieve their political objectives. Second, the state has always had the (imperfect) capacity to direct rents or surpluses from increased economic activity within a society to selected key groups through various means.
Functioning states have a monopoly over the creation and enforcement of formal institutions, and also how rents are redistributed, and this monopoly forms the key to understanding why private enterprise (whether domestic of foreign) seek to either circumvent the state, or to partner with it. The latter option forms the basis of what we call the 'MNE-State compact' (Figure 1). This is built around separate

pragmatic realizations by either party. First, that modern states cannot grow in isolation – they require engagement with foreign actors in many different roles. Second, that private enterprise needs the resources of the state in the form of public and collective goods, and enforceable institutions to be able to transact efficiently. The MNE-state compact implies an alignment, or an uneasy cooperation. What we wish to illustrate is the constantly changing priorities of states and firms in response to the contemporary zeitgeist, and what this has meant for the discussion on development and inequality over the last three centuries.

2.1 Income inequality and early industrialization: foreign capital, catch-up and infant industries

Foreign capital - as it was referred to prior to the 1940s – has always played a significant role in economic development since at least the first industrial revolution, with countries seeking ways to imitate the UK's technological dominance and competitiveness in manufacturing. The principles of this early version of import-substitution industrialization (ISI) relied on acquiring the necessary technology, skills and financial capital from abroad, and a concomitant practice of protecting domestic actors from foreign competition through trade barriers (Landes, 2003). Proto-MNEs (large trading houses) and free-standing companies coordinated multiple parallel sources of arms-length capital, technology, and skills, and made these available to local actors whether through licencing, purchase, or imitation.

Such sustained and deliberate engagements with foreign capital required the active connivance of the state. Government policies were deliberately promulgated with the intention of promoting the transfer and retention of skills, capital and intellectual property from abroad, with the deliberate intent to reduce dependence on manufacturing imports, while simultaneously building up domestic industry, explicitly seeing to raise living standards and welfare. The growth of most of the follower nations in Europe, the Americas, Japan and elsewhere was invariably connected to state policies which enabled opportunities from foreign capital and technology (Schwartz, 2018).

It was in the early 20th century, alongside the global depression of the inter-war years, that attitudes towards foreign capital became somewhat negative. Economists were concerned about the longer-term negative impact of free trade (and foreign capital) on developing country economies. Indeed, the Prebisch-Singer hypothesis (Prebisch, 1950; Singer, 1950) argued that free trade had unfavourable outcomes for developing countries, whose economies depended on commodities, perpetuating their position as producers of low-value goods and raw materials, while developed countries continued to be net exporters of manufactured goods. The work of Albert Hirschman and Arthur Lewis in the 1950s acknowledged the role of MNEs in affecting the growth of manufacturing in such economies, though the role of FDI and the MNE *per se* remained muted.

Much of the literature during the first three-quarters of the 20th century took a keen interest in catching-up: narrowing the difference in the development levels *between* countries. This also became a key preoccupation of the early IB literature. Early IB scholars identified that MNEs had unique advantages that permitted their rapid expansion, but they also envisaged that the law of capital accumulation could lead to oligopolistic and monopolistic practices and value capture at the expense of local actors in developing countries, adversely impacting these locations socially and politically (Hymer, 1982; Vernon, 1966; 1971).

Indeed, by the mid-20th century, MNEs were increasingly held in suspicion, and with many newly independent states seeking to catch-up, policies shifted to a form of Import-Substitution Industrialization that emphasised 'import-substitution', rather than 'industrialization' (Thorp, 1998). In some countries, government policies oscillated between the two, protecting vested interests of specific domestic actors, and creating a competitive domestic manufacturing sector. Other 'mixed' strategies combined Import-Substitution Industrialization with export-orientation (Cárdenas et al., 2016; Lall, 1996). Regardless of the strategies, and the degree to which foreign capital was engaged with, it is worth emphasising the fundamental objective of all Import-Substitution Industrialization strategies, regardless of their outward or inward orientation, was to achieve economic development, i.e., reduce income inequality compared to more developed countries, in imitation of the economic success that ISI had brought elsewhere. The role of the state was absolutely core to Import-Substitution Industrialization and its variants, whether it was the USA in the 18th century, Latin America in the early 20th or East Asia in the late 20th. States were able to shape policies that attracted or repelled foreign investors, and the accrual of rents by both foreign and domestic actors. Regulatory capture by MNEs did occur, but it was rarely sustained in the long run (Bucheli, 2005). Domestic actors – both in manufacturing and agriculture – were just as able to influence outcomes, and such political influence by large actors was a feature of almost all economies. The fundamental objective of all ISI strategies, regardless of their outward or inward orientation, was to achieve economic development in imitation of the economic success that ISI had brought elsewhere.

It is a matter of historical record that the ISI period did create considerable economic growth while simultaneously reducing within-country inequality in Latin America and most of Asia until the 1970s (Rodrik, 2016). Import-Substitution Industrialization resulted in considerable economic restructuring, agrarian reform, investments in knowledge infrastructure, and some globally competitive technology-intensive industries, as well as the birth of some domestic MNEs from the developing world (Cárdenas et al., 2016). Reducing within-country inequality through a redistribution of the gains of ISI was also a political priority in some countries, especially where workers were more active and militant in demanding rights (Fishwick, 2019). In Latin America, prior to the 1970s, considerable political power lay with unions and working classes, and issues such as a legal minimum wage, on the one hand, helped reduce within-country inequality and improve social cohesiveness, but, on the other hand, reduced their attractiveness to MNEs (Jenkins, 1991). Reduced domestic inequality and increased competitiveness was therefore often a trade-off. Gains in terms of equality from the 1960s and 1970s in many Latin American and African countries and India were later dissipated by a failure of governments to maintain longer-term priorities in the face of shorter-term political and economic pressures, which resulted in half-complete infrastructure projects, abandoned land redistribution, and a failure to build up local absorptive capabilities.

Where workers were not politically influential, (e.g., South Korea and Taiwan), wages were kept artificially low to maintain a comparative advantage in labour-intensive sectors by preventing collective action through unionization. Therefore, some states shared surpluses from early industrialization with domestic industrialists rather than workers. Doing so allowed them to prioritise longer-term goals such as the competitiveness of nascent sectors, often at the expense of inequality reduction.

The defining feature of the Import-Substitution Industrialization era was that the state possessed considerable influence in shaping outcomes, and the degree to which rents were shared with working classes, domestic industrialists and MNEs. State capture and MNE interference was rarely without domestic complicity, and not because of government failure. It was the state's decision to enforce an industrial policy to build up selected sectors, whether to co-opt or exclude domestic industrialists, and whether to press for MNEs to transfer skills on an arms-length basis or to share rents by insisting on MNE-domestic firm collaboration. In countries that took an ISI path with a stronger outward-looking export-orientation, the state was able to dictate the intensity of MNE-domestic firm interaction. That is, bargaining power lay with the state, shaping and promoting knowledge flows, increased local content, and linkages between MNEs and domestic actors, in exchange for providing MNEs with reliable (and cheap) access to domestic resources and infrastructure. In a pre-liberalization world where there were few countries which were able to offer these necessary complementary assets reliably and cheaply, they were generally able to create a symbiotic environment that benefitted both MNEs and domestic actors (Lall, 1996).

2.2 MNE and states in the liberalization era: The ascendant MNE while income inequalities rise

The late 1980s and 1990s saw a wave of economic liberalization across the developing world, actively supported by international agencies. This widespread adoption of policies to promote efficient markets and reduce distortions also included a wholesale drift from ISI policies towards outward-looking, MNE-friendly development strategies. This was supported by a large stream of literature in economics and IB outlining that MNEs had a positive effect on development where local firms increased their productivity by accumulating knowledge and skills through their interactions with MNEs. The IB literature also pointed out that the potential for these knowledge spillovers was highly contingent on the absorptive capacity in the host country and the MNEs' investment motive (Marin & Bell, 2006). MNEs use a variety of affiliates in multiple locations to efficiently exploit their firm-specific advantages (FSAs), often coordinating these across multiple countries. For instance, affiliates seeking low-cost labour fragmented their low-value adding activities, engaging with multiple local actors in several locations. While this reduced possibilities for productivity spillovers (De Marchi et al., 2018), some local firms with the appropriate absorptive capacity have been known to upgrade their capabilities and even move up the value chain (Kano, 2018).

Liberalization indeed resulted in growth in income levels in much of the developing world, particularly in Asia and parts of Latin America. Nonetheless, merely instituting liberalized trade and investment policies proved an insufficient condition to benefit from FDI, as a number of countries fell behind, or stagnated economically (Narula & Dunning, 2000). Moreover, at the same time, within-country disparities remained substantial, and since the early 2000s, have further increased substantially.

These developments in part reflected a distinct and expanding shift in the balance between the bargaining power of states versus MNEs. Spurred by the views of the Washington Consensus and the associated restrictions introduced within WTO agreements, most governments downplayed selective industrial policies and focused on horizontal incentives, weakening infant industries that had been in nascent development (Lall, 1996). In addition, with liberalization, a number of the more competitive domestic actors were acquired by MNEs.

As globalization proceeded at pace during the new century and spatial transaction costs fell further, MNEs subsequently rationalized their international operations by closing down and merging activities within regions to create greater intra-MNE efficiency and lower costs. For the host countries that experienced divestment by MNEs, local demand was now met through imports, which resulted in the demise of many local supply chains. This contributed to a rapid shrinking in the manufacturing sector across many countries, increased unemployment, as well as a reduction in the potential for spillovers as MNEs concentrated their more knowledge-intensive activities in appropriately endowed locations (Rodrik, 2018). With this gradual rationalization and concentration of the activities of their subsidiaries, MNEs had fewer incentives to help build up host country technological capabilities, and became less likely to take the lead in building up new agglomerations, leaving governments to do so on their own (Ciravegna, 2012).

Moreover, MNEs now have multiple alternative locations for their labour-intensive activities; there are now many easily accessible agglomerations and clusters offering 'generic' location advantages in terms of cheap labour and other commodity inputs, with countries vying for investments by offering incentives. States still retain more discretion when they are able to offer 'specialised' location advantages that are hard to imitate. Some of these locations have grown in size and economic relevance, attracting resources and becoming industrial and innovation hubs (Owen-Smith & Powell, 2004). However, contemporary policies have not, generally speaking, proven as effective in building competitive industries and raise income levels.

As the liberalization period was characterized by the reduction of the state's interference in the economy, the capacity of the state to directly address unemployment became limited, which also coincided with the diminishing power of unions in some instances. Moreover, due to global competition for labour-intensive FDI, states became limited in their capacity to embed the increasingly footloose MNE, and struggled to align MNE activity to the state's development objectives. This changing balance of MNE-state relations made for limited possibilities for states to appropriate surpluses from FDI, and an inhibited ability of governments to provide public goods and high-quality infrastructure (Narula & Dunning, 2000). Another negative outcome of the shrinking of the state sector was a decline in the capacity of the many developing countries to regulate the activities of MNEs, amid additional concerns that stricter regulation might discourage foreign investors. This led to MNEs seeking locations with the weakest effective regulation, and a race to the bottom in terms of environmental and social compliance (Davies & Vadlamannati, 2013; Kaplinsky, 2008).

Global value chains, anti-globalization and the reprise of the state

Since the early 2000's, in addition to the fragmentation and rationalization of their activities across locations, MNEs have also reduced the activities that they undertook internally within their firm boundaries. This greater outsourcing and collaborative arrangements with arms-length suppliers has seen the maintenance of control without the burden of ownership (Kano, 2018).

By globalizing and disaggregating value chains, MNEs have benefitted by relocating low-skilled manufacturing and service jobs from advanced economies to lower wage developing economies, leaving behind primarily high-skilled professional service and management jobs, and low-skilled location-bound jobs. This has caused considerable polarization in wages and thereby greater within-country income inequality in advanced economies (Laffineur & Gazaniol, 2019), while simultaneously reducing between-country inequalities by lifting a large number of households in the developing world out of poverty and into the middle classes. Millions of jobs have been created in new and old industries due to the proliferation of global value chains (GVCs), involving hundreds of thousands of local businesses in developing economies. Due to globalization,

"over the last decade, roughly 20% of the drop in inequality between countries has been compensated for by an increase in within-country inequality. A process of 'internalizing' global inequality within national borders may thus take place; inequality between Americans and Chinese is partly replaced by more inequality between the rich and the poor in America and China" (Bourguinon, 2015, p. 38).

Despite rising exports from some developing countries, greater employment opportunities and growing incomes, this tide has not lifted all boats evenly. Some locations in the developing world that initially benefitted from GVCs have struggled to retain these jobs when wages inevitably rose, as MNEs have relocated and outsourced to even lower wage countries. Many economies – particularly in South America and Africa – have lost ground when compared to Asia. They experienced a net loss of jobs with a retreat towards agricultural and extractive commodity sectors (Kaplinsky, 2008) causing declining incomes and rising within-country inequality. Combined with rising populations, this has fuelled social unrest as the informal economy absorbed an ever-growing workforce. In short, although the critical issue for states remains promoting deep domestic interdependencies of MNE operations in host locations, there are now fewer mechanisms available to governments to incentivise MNEs to deepen their local footprint.

Amid rising inequalities, societal unrest and polarization, tackling within-country inequality has, again, become a primary concern of the state, in part because this is often a factor in the political tenure of more democratic governments. States also realised that they can leverage MNEs to promote development only where they orchestrate the complementary resources and domestic actors to facilitate this (Narula & Dunning, 2000).

Since the mid-2010s, there has indeed been growing attention to the negative effects of globalization, and a resultant return of protectionism, across both the developed and developing world. Some states have embraced an increasingly protectionist rhetoric and sought to re-emphasise national champions and domestic employment, as well as instituting procurement policies that favour domestic enterprises. In other words, the pendulum has begun to swing back towards state intervention. In the context of this new narrative, MNEs appear to have lost some degree of bargaining power, while governments are asserting themselves through the strategic control of sectors, restrictions on ownership, and outright proscriptions and embargoes (Kobrin, 2017). How the MNE-State compact adapts to rising nationalism is a matter of great interest to both IB and international political economy. It is therefore also in the interest of MNEs to be more engaged in reducing within-country inequalities, as more stable and egalitarian societies tend to have MNE-friendly policies.

2.3 Shifting gears: exploring the MNEs role in augmenting or alleviating inequalities of opportunity

While income inequality and cross-country convergence have been a constant preoccupation of social scientists and policy makers across the historical periods narrated so far, the effect of MNEs on income has tended to remain anchored on the complex causal links and interactions in MNE-host country relationships, especially with regards to trade, employment, industrial and investment policies. Although the mechanisms by which MNEs affect economic development (and thereby between-country inequality) have also been elaborately studied, the literature considering the MNE's role in affecting within-country inequality remains a nascent field. Furthermore, it continues to be framed on outcomes, and has not sought to enquire deeply why inequalities persist, and how MNEs contribute to its alleviation or increase.

Why certain groups consistently remain poorer than others is certainly not a new theme. Nonetheless, all societies at various points have accepted certain inequalities as 'natural', that some differences in wealth or success are inevitable, biological, or ordained by higher powers. This has been applied variously along lines of class, race, gender, religion, and indeed these discriminations have been legally and constitutionally adopted. Even when no longer formal, they remain deeply engrained within societal norms and informal institutions, resistant to change. We can see the long shadow of racial and gender biases even today, regardless of country.

From this paper's perspective it is important to understand that MNEs (or indeed a domestic firm) can simply be passively reproducing society's inequality of opportunities by reinforcing the norms of its location. It may also choose to actively apply alternative norms, for example, those of its home location, or that of key stakeholders. MNEs can act as a vector, because its affiliates are a microcosm of 'imported' practices, transferred through the MNE's internal structures, but they can also simply replicate what they find in the host country. The literature suggests that reality is a combination of both[1]. The rest of this paper steps away from the historical perspective and explores the capacity of the MNE to influence the within-country inequality, *within the constraints of the contemporary MNE-state compact*. Without a certain synchronisation between the objectives of firms and those of the state, and the necessary complementarity of resources and institutions, actions by one party can be dissipated by the actions or inactions of the other. Besides, as we have earlier emphasised, MNEs have, broadly speaking, a greater variety of outside options available to them, compared to previous epochs, and are keenly aware that their activities are subject to the scrutiny of a large number of stakeholders beyond the host country government.

The contemporary return of the state as an active actor does not imply that we can expect a return to import substitution. States have less *de facto* sovereignty in a globalized world economy, and less freedom to act by fiat. In short, states have less agency, having ceded this to civil society and the

[1] There are two evolving and micro approaches to 'making globalization good for development' that deserves mention, but are outside the focus of the current paper. Research around the notion of creating shared value (CSV) has suggested that MNEs can reduce inequalities of vulnerable actors in their value chains or industry clusters by empowering them and by providing technology knowledge and financial support as part of their strategy to share value. CSV, defined as "policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates" (Porter & Kramer, 2021, p. 327) is considered as a way to rethink the role of companies in society and to promote a more socially responsible capitalism. IB research on the Bottom of the Pyramid (BOP) literature (Prahalad & Hart, 2002) proposed that MNEs can reduce poverty while simultaneously making profit even at the lowest-income markets, spurring domestic entrepreneurship through these means . As with CSV strategies, while we see merit in pursuing a greater inclusion of the most vulnerable strata of society into the business sector, the relevance of these approaches to reduce inequality is yet to be determined (Kolk et al., 2012).

private sector. Nonetheless, even where the private sector takes a more active role in addressing equality and development challenges, it operates under the yoke of historical circumstances and extant institutions. Moreover, the state and the private sector (foreign or domestic) have different development priorities and reputational considerations.

In the rest of this paper, we put forward a more deliberate (and systematic) account of inequality in opportunities. IB (and related disciplines) have indeed addressed some issues within the inequality of opportunities. We review the key contemporary debates around MNE activities and their effects on inequalities of opportunity at three levels: the micro (firm)-level, the meso (industry)-level, and the macro (country)-level.

****Figure 2 about here***

3. HOW MNES AFFECT INEQUALITY OF OPPORTUNITIES

In this section we introduce socially, politically and economically relevant debates on the causes of inequality into an IB context. By moving away from an emphasis on income and economic inequality we shift the dialogue to understanding the *causes* of these income disparities, and from there, to identifying the MNE's role within that dialogue, also in their interaction with the state. We begin by explaining more about the inequality in effort and opportunities.

3.1 Inequality of effort and opportunities versus outcomes

The traditional inequality of outcomes view focusses on where individuals "finish", which is usually measured in terms of wealth, incomes or job levels. However, this focus on outcomes does not take into account the underlying economic, demographic and social dynamics which cumulated in the observed outcomes. Prior work in development studies has classified these factors in two categories: inequality of efforts and inequality of opportunities.

It is pertinent to briefly mention the inequality of efforts. This source of inequality is considered voluntary and uncontroversial. Individuals make choices to pursue certain opportunities (and by extension, forsake others), and decide how much effort to dedicate to achieve these ends. Inequalities of outcomes resulting from inequality of efforts are therefore within the scope of individual control and choice (Roemer, 1993). *Ceteris paribus*, if individuals have identical preferences for work and possess identical talent[2], they should be able to generate identical incomes.

In contrast, *inequality of opportunities* encompasses the factors affecting inequality of outcomes beyond heterogeneity in individual choices. It can be understood as the inequality in barriers individuals encounter, outside their control, in achieving their desired outcomes (Marrero & Rodríguez, 2013). This inequality of opportunities can be related to a number of individual characteristics and social circumstances, such as gender, ethnicity (including race, caste, indigenous people, etc.), immigration status, intergenerational immobility, health challenges, etc. (Bourguignon et al., 2007; Sen, 1999). Inequality of opportunity moderates how effort is rewarded in terms of outcomes. Even with equal resources, effort and talent, discriminatory practises can result in inequality of outcomes. This includes the phenomenon that women and ethnic minorities do not receive the same pay and job opportunities as equally performing men of the majority ethnicity (Ramos & Van de Gaer, 2016). Moreover, inequality of opportunities inhibits access to the resources required to achieve desired life outcomes. Banerjee and Duflo (2011) uncovered the large scale and scope of the disadvantages that individuals born into unprivileged circumstances experience. They also found individuals differ in their access to institutions, including democratic and legal processes. Actors who do not have formal title to their land have no legal protection of their assets, and therefore cannot be mortgaged for a loan. Subsistence workers and others in the informal sector often do not have access to public goods such as schools or hospitals, and cannot register for a bank account.

3.2 Inequality of opportunities in IB research

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

In the next sections, we examine how MNEs affect inequality of opportunities more explicitly and broadly by utilising three levels of analysis – micro, meso, and macro – at which MNE can influence inequality of opportunities. For each level we provide an overview of highly salient mechanisms, and discuss avenues for further research.

3.3 Micro-level mechanisms: Inequality of opportunities within MNEs

A large body of research in organization studies and sociology has established that firm-level dynamics are essential for understanding inequality of opportunities, as employment and wages are largely determined by firms. Specifically, HRM policies have been identified as the primary driver of firm-level creation of inequality of opportunities (Amis et al., 2020). The MNE's cross-border activities come with their own set of challenges for these HRM practises. Boundary spanning managers and an efficient HRM infrastructure facilitate the management and coordination of economic activities by the MNE headquarters of its international subsidiaries. In subsidiaries, employees with specific skills are necessary to absorb the knowledge transferred from the headquarters are for the exploitation of these FSAs. Ultimately, "recruiting, deploying, utilizing, and retaining the 'right' people for each location to ensure that they contribute most effectively" (Andersson et al., 2019, p. 2) can be an FSA in and by itself. Extant research has suggested the effects of MNE HRM policies and practises are especially prominent for inequality of opportunities related to gender and cultural minorities, including immigrants and ethnic minorities.

3.3.1 Gender-based (in)equality of opportunities

Our understanding of the impact of MNEs on gender inequality could greatly benefit from incorporating gender theory (Koveshnikov et al., 2019). According to this theory, gender encompasses the full spectrum of socially constructed roles, behaviours, expressions and identities related to masculinity and femininity, as opposed to biological sex, which is (with a few exceptions) binary and assigned at birth.

These constructions of gender have been found to be deeply embedded into organizational structures, practices and cultures, which is one of the reasons why workplace gender inequality has proven to be persistent. The level of gender inequality is not the same for all firms because constructions of gender may differ between them (Acker, 2006). Despite calls to study gender in the MNE context (e.g. Koveshnikov et al., 2019) our understanding of how gender is perceived and enacted in MNEs remains limited. Several studies have found the hiring, promotion and compensation of women is different in MNEs compared to other firms, suggesting the MNE is a specific type of gendered space. Wittenberg-Cox (2013:1), for instance, observes that MNEs “can often cherry pick the very best female talent in countries where the local firms still discriminate against women”. Kodama et al. (2018) show that foreign-owned firms in Japan are more likely to hire and promote women and offer more family-oriented working conditions compared to locally owned firms.

Not all studies find a positive effect of MNEs on gender equality. Van der Straaten et al. (2020) found the gender wage gap to be smaller in MNEs in developed countries, but larger in MNEs in developing countries (compared to local firms). This could be due to the standardized HRM systems many MNEs employ, which are less responsive to work-family conflicts resulting from local customs and value systems (such as care for elderly parents), whereas local firms can more effectively mitigate the effects of work-family conflicts on a woman’s productivity (Hewlett & Rashid, 2010).

Research on gender in IB has almost exclusively focussed on women in MNEs. Framing gender as a “female” issue inhibits our understanding of how the full scope of gender works. Trans-gender individuals for instance are known to face significant challenges in the workplace, the severity of which varies with perceptions and valuation of masculinity in the workplace (Thoroughgood et al., 2020) this also applies to cis-gendered males who exhibit behaviour perceived as feminine (Mayer, 2018), including fathers who take on non-traditional gender roles (Gatrell et al., 2021).

3.3.2 Minority-based (in)equality of opportunities

With regards to the inequality of opportunities for immigrants and people belonging to ethnic minorities, MNE dynamics may be distinctly different from local firms as well (Vaara et al., 2021). MNEs tend to rely on a more diverse workforce than local firms (Tatoglu et al., 2016), which may result in a (need for) a more inclusive culture (Van der Straaten et al., 2020). MNEs tend to have organizational values based on a pluralistic multicultural context, as MNE subsidiaries are embedded in both their headquarters’ international network and the host country they are located in. Moreover, MNEs need to effectively filter and interpret the knowledge that is continuously transferred to them by their headquarters (and/or other geographically-dispersed subsidiaries) and adapt this knowledge to the local context, which require a nuanced understanding of both the headquarters and local context, language, and culture across the organization (Vaara et al., 2021). Given this context, MNEs generally have an interest to actively promote a pluralistic culture to effectively facilitate the absorption and adaptation of knowledge by its international subsidiaries.

3.3.3 Race and intersectionality

One notable area of neglect in the IB literature on inequality of opportunities is race. Empirical research has shown that racial divides in society are often reproduced within firms (Amis et al., 2020). This research, however, is primarily conducted in the Americas. In other parts of the world, social divides may run along different lines. Bapuji and Chrispal (2020) stress the importance of taking into account the role of caste in India to advance understanding of how inequality is perpetuated at an organizational level. How these type of dynamics play out differently within MNEs, with different group and national identities compared to local firms is poorly understood, but highly relevant to MNE managers, and policymakers (Vaara et al., 2021).

Another topic of interest in this context is intersectionality. Sociology research has long established the issues of gender and cultural identities cannot be studied separately, as every individual has both a gender and a cultural identity, amongst other dimensions of identity. Inequality of opportunities will intersect and interact along these dimensions, a phenomenon known as intersectionality. The dominant focus of IB is on sex rather than gender, framed as how women are different from men, and on expats versus locals. This does not reflect the reality of inequality of opportunities many individuals face inside and outside the MNE. In MNEs, the gender constructions of different (home and host country) cultures are combined, and MNE-specific values and perceptions of gender and ethnicity may result. Frenkel (2017) highlights the relatively large number of women of color at the bottom of MNE hierarchies, which could be the result of perceptions of the women of color as someone who “is compliant, who will accept orders and low wages” (Acker, 2006, p. 450) in MNEs. These perceptions may be especially salient in MNEs because of the reliance on cheap female labor, i.e. “pink collar” workers, in the developing world for low skilled export processing and service tasks (Vaara et al., 2021), and the historic dependency of transnational elites in MNEs on the care services provided by immigrant women (Acker, 2006).

While the dynamics leading to inequality of opportunities within MNEs play out at firm level and are to a large extent under their direct control, they are highly contingent on the local context. On the one hand, state policies such as minimum wages and anti-discrimination laws limit MNE specific effects on inequality of opportunities (Van der Straaten et al., 2020). On the other hand, MNEs have relatively female-friendly HRM policies and practises compared to local firms, especially where their home country is more gender egalitarian than the host country (Kodama et al., 2018), potentially leading to isomorphism.

3.4 A meso perspective: industrial policies, economic structure and GVCs

Meso-, or industry-level mechanisms to address inequality form the core of import substituting industrialization policies, and have long been an integrative basis to address within-country inequality by targeting specific industries and geographical regions. Meso-level policies are necessarily long-term, because they require a multitude of actions to create a competitive industry or region by deliberately addressing multiple dimensions of the business or economic system simultaneously. They require systemic coordination between multiple actors, and policy dimensions.

3.4.1 Industrial and cluster policies

The Washington Consensus has disapproved of industrial policy that targets specific industries, (‘vertical policies’), encouraging instead policies that build advantages benefitting the entire economy (‘horizontal’ policies). Vertical industrial policies often have twin objectives: to nurture and strengthen nascent competitive domestic firms in specific industries, while also gradually diminishing ‘sunset’ sectors, thereby directly seeking to ‘shape’ economic structure. This, in turn, directly reduces inequality through expanded employment opportunities. Although many countries undertake vertical policies, their efficacy has increasingly been attenuated with supra-national agreements such as TRIMS and SCM at the WTO level, as well as various bilateral and multilateral accords.

A number of states now look towards creating clusters and agglomerations, oriented at geographical concentrations (Ciravegna, 2012). Recent contributions have pointed to relevant societal outcomes of agglomerating economic activity, as the combination of monopoly power of MNEs in these areas and the geographic concentration of clusters might aggravate inequalities (Feldman et al., 2021). Addressing inequalities based on geography can lead to new challenges where infrastructure priorities and resources become concentrated in one location at the expense of another. Scholars have therefore suggested the increase of these core-periphery differences deserve closer inspection, and the role MNEs play in these dynamics.

3.4.2 Creating opportunities for the informal sector

Countries with poorly developed infrastructure, limited public goods, and endemic poverty can have populations mired in informal and subsistence employment hat are largely reliant on low-productivity and labour-intensive methods. informal sectors account for up to 80% of the working population of some countries. Informal actors lack access to key resources. This results in a dual economy, with a resources gap between the wealthy landowners and industrialists (who have scale, capital and skills at their disposal), and the informal workers and smaller 'enterprises' who have few resources (Narula, 2019). In these contexts, MNEs often have a similar role to domestic capitalists, running large agricultural plantations and industrial mining activities, and, able to outcompete the small-scale, subsistence farmer or miner. Through passive or active means, MNEs can thus perpetuate extant biases against vulnerable and marginalised groups, in some cases worsening their already-limited access to opportunities. The scale and scope of MNEs' effects on vulnerable communities are yet to be uncovered (Brandl et al., 2021), as are the interventions that could mitigate these effects.

The proliferation of GVCs in the less developed countries has had a variety of benefits for the informal sector of these locations. Prior to the growth of GVCs, informal enterprises were primarily a low-cost, low-quality, and low-margin alternative to goods and services produced by formal firms, including MNEs (Banerji & Jain, 2007). With the advent of GVCs, informal enterprises began to participate in the lower tiers of MNE-led GVCs. They have been a significant source of cost-competitiveness for GVCs, as informal actors are by their very nature not burdened by minimum wage requirements and formal labour standards, and do not pay taxes. The engagement of the informal sector in GVCs has been instrumental in improving economic outcomes to the economy at large, by both direct and indirect means. Nonetheless, informal actors are the most marginal within such chains, but we know little of the precarity of their activity (Narula, 2019). It is not yet clear how developing countries can maintain their competitiveness in GVCs, while also providing social protection and growth opportunities to the informal sector.

3.4.3 MNE control of GVCs

Globalization and decreasing spatial transaction costs have made the MNE more footloose and this has not always had a negative effect on inequality. Some have noted the increase in employment opportunities, also for female workers specifically, who are preferred over male employees in many GVCs (Sinkovics et al., 2016), although, as noted before, this may in part be because women are systemically paid less than men. In other cases, MNE-orchestrated value chains have exerted their influence positively to maintain relatively high labor standards, offer superior working conditions, and to ethically source sustainable inputs, although this has often only been after mounting stakeholder pressure. MNEs have taken a variety of actions to tackle inequality of opportunities in their GVCs, for instance, making their sourcing decisions conditional on suppliers' avoidance of discriminatory practices. By far the largest benefit has been in the creation of opportunities for domestic firms, in part due to upgrading opportunities offered by the flagship MNE.

Conversely, as MNEs have considerable choice where to outsource low-value added activities, they have considerable bargaining power, often reducing their suppliers to price-takers (Kano, 2018). Therefore, suppliers tend to have tight margins. In part, increased GVC activity in developing countries reflects lower regulatory enforcement due to weak formal institutions, high levels of bureaucracy, or endemic corruption. In other locations, states have 'watered down' the implementation of regulation for investments that meet politically or socially preferred outcomes which can be exaggerated by regulatory capture by interest groups or large firms (Davies & Vadlamannati, 2013).

While the ‘direction of travel’ in GVCs has seen improved equality of opportunities, there is considerable variation between value chains in the degree to which MNEs have taken a proactive approach to addressing existing inequalities, either within their directly-owned operations, or their arms-length suppliers. Indeed, anecdotal evidence suggests that there is a tendency to engage in maintaining standards only as far as is mandated (or enforced) by regulatory agencies and external stakeholders (Narula, 2019). There is also evidence that multi-stakeholder initiatives to redress negative consequences often have unintended knock-on effects. For example, when firms substitute machinery for humans to improve safety and efficiency, they predominantly replace female workers (Sinkovics et al., 2016).

Not all sectors, nor all components of the value chain have proven footloose; more knowledge-intensive activities in particular have been ‘sticky’, and associated with a smaller subset of locations, on a global level, and even within countries (Castellani et al., 2022). A number of countries continue to engage in vertical industrial policies that pay particular attention to providing the appropriate knowledge infrastructure in specific industries. The goal has been to attract and deeply embed MNEs within local environments, which has proven successful in smaller economies as diverse as Ireland, Taiwan and Israel. These economies have been innovative in overcoming their size disadvantages by their use of a variety of novel policy tools from immigration regulations, regional policies, and employment laws, and carefully skirting around WTO restrictions on incentives and subsidies. Industrial policies adapted to the current global socio-political milieu are redefining the nature of the MNE-state compact, as states develop renewed awareness of societal pressures to create opportunities for a broader swathe of the population.

3.5 Macro-level aspects: Adapting the MNE-state compact

Inequality of opportunities is also affected by macro-level forces, particularly the evolving nature of the MNE-state compact. MNEs and states are not natural partners, as they have diverging interests and stakeholders. As such, MNE-state negotiations depend on their respective bargaining power, which is tied to several factors such as ownership advantages of MNEs and the location advantages and legal enforcement of institutions by the state. The nature of MNE-state compact can have a considerable effect on the priorities and success of the state in addressing (in)equalities of opportunities. Moreover, the power balance in these bilateral relationships between MNEs and the state is not static, and is sensitive to geo-political developments and the sunk costs of the MNE in the local economy– a problem known as “obsolescence bargaining” (Vernon, 1971). The effects of the MNE-state compact (or its lack) are a function of the degree to which both sides perceive the relationship as being mutually beneficial, and, crucially, the extent to which the state prioritises the reduction of (some of) the inequality of opportunities. States are equally heterogenous in their goals, and domestic political priorities, resource constraints and political regime changes can result in radical swings in how states choose to address prosperity and equality. The macro-level mechanism through which MNEs affect inequality of opportunities can thus be expected to be especially dynamic.

3.5.1 Institutions: Extractive vs inclusive states

Equality of opportunities is an explicit priority in countries that have relatively inclusive institutions (as in the case of most modern liberal democracies), while the opposite is true for countries with more extractive institutions, where the government has a distinctive interest in favouring the elites (Acemoglu & Robinson, 2012). Not all states necessarily use broader definitions of inequality as a measure of their success. States may emphasise the welfare of elites, rather than reducing overall poverty. IB has a tradition in examining strategies and financial outcomes across countries with varying institutional systems, also noting the presence of these extractive, or “predatory”, states in the developing world (Fainshmidt et al., 2018). In these states the local elites hold excessive amounts of power, and are able to retain a larger share of the gains from MNEs activities in their territories. How MNEs can improve opportunities for the non-elite population while necessarily maintaining their relationship with the elites in power, and whether they should play a role in redressing power, are relevant questions yet to be answered. In some cases, MNEs operating in extractive states have been asked by external stakeholders to maintain higher standards on matters such as corruption, ethics and corporate governance. These requests normally come after specific accidents such as scandals, political turmoil, or wars, which clearly open the “stay or go” dilemma for MNEs. These are thorny decisions with important implications for inequalities of opportunities, because, on the one hand, staying implies MNEs have to compromise on their corporate ethics. On the other hand, exiting the country means leaving local workers without jobs, affecting inequality of opportunities.

3.5.2 The MNE and private regulation

The MNE-state compact relies on an alignment of interests, but even where there is an overall consensus, the interests of the state and the interests of the MNE may diverge on specific issues, and can even become confrontational. In some cases, MNEs may seek to avoid new regulations and lobby against them, while in other situations they may follow higher standards than those required by the host country, in response to stakeholder pressure from elsewhere, for instance, those associated with either the home country, a key customer's expectations, or in anticipation of international law. Hence, in their attempt to maintain high social standards internationally, MNEs may even supersede state politics. Thus, MNEs can help to proactively reform areas of regulatory weakness in a host country, sometime offering or enforcing improved opportunities within the MNE, such as migrants or minorities' rights where the government actor has failed to do so (Hambrick & Wowak, 2021).

When MNEs oppose binding regulations, they also realize that such opposition becomes more legitimate and easily accepted when it is accompanied by voluntary efforts to address governance gaps and market failures. That is, MNEs have a preference for soft law rather than hard law, because these have a voluntary aspect to them. MNEs thus often seek to establish private environmental or social standards which may be used instrumentally to avoid formal regulation. This can be a form of regulatory capture, where MNEs establish a formal industry association to self-certify these standards. For instance, the Forest Stewardship Council, despite its formal commitment to multi-stakeholder governance, has relied heavily on MNEs to promote—and sometimes subsidize—the certification of forest management operations (Bartley, 2018).

Private socio-environmental standards adopted by MNEs from countries with well-developed regulatory frameworks are often incorporated in corporate policies and applied globally, especially in host countries with significant regulatory voids or extractive elites. Giuliani et al. (2017) found that the adoption of green certifications in the coffee value chain improved farmer environmental conduct in countries with weak national institutions. Standards imposed by global buyers can act as a source of guidance and stimulus not provided by the host country. This suggests that MNE-state power imbalances may not always end up in regulatory capture, but instead can generate isomorphic pressures improving conditions in contexts with high levels of inequality of opportunities. Nonetheless, while MNEs can positively impact inequalities through their engagement at the political and regulatory level, it is clear that mutual self-interest underlays what is an uneasy MNE-state compact. That MNEs seek to shape industry standards or establish norms of conduct is relevant in the context of inequality of opportunities. On the one hand, by slowing down national regulations MNE may undermine the protection of rights of citizens and reduce access to equal opportunities. On the other, MNEs can 'lead the way' where the government is unwilling or unable to enforce higher standards when the national government lags behind international standards.

3. DIRECTIONS FOR FUTURE RESEARCH

IB has not yet established a strong track record in linking to societal phenomena, in part due to the limited data availability, and the related difficulty of modelling these effects (Brandl et al., 2021; Cuervo-Cazurra et al., 2021). However, directly relating MNE actions and inactions on social and economic phenomena can advance IB theory, and provide policymakers and managers with the insights necessary to enhance positive and mitigate negative effects of MNE activity.

We have emphasised that to focus on income inequality is to focus on the symptoms, and not the causes, and without seeking to understand these causes, it is hard to suggest remedies to intransigent poverty and inequality. We have therefore explicitly introduced the inequality of opportunities view to unravel potential mechanisms through which MNEs can address within-country inequality.

In one form or another, the idea of MNE-assisted development has relied on a MNE-state compact, and this still remans the case. The degree to which MNEs have participated in the local economy has been dependent on state policies (or the lack thereof) and the degree to which their interests have been mutually or complementarily aligned. MNEs can choose to be passive, supporting or assisting the development priorities of the state; it can also be proactive by pursuing its own agenda to address inequalities through its internal governance and policies towards procurement, HR and domestic actor engagement. These may be inequalities that the state recognises, but is unable to enforce due to political or resources constraints, or they may be opposed to those of the state.

There is considerable heterogeneity between and within states, because priorities, institutions and policies vary not only over time, but are location-specific. Nonetheless, by and large, the social contract between a (functioning) state and its citizens has consistently been aimed at improving the quality of life of those citizens (or sub-groups), which, essentially, is the provision of freedoms, and improving their welfare. In today's milieu, most states seek to reduce within-country inequalities. What has also changed significantly is that the MNE has become directly involved in this venture. The MNE – or the foreign capitalist – has historically had few societal obligations, save to its immediate employees and shareholders, except where these obligations were made as a condition for access to the host economy. In this era where CSR policies have become the norm, states have come to rely on the private sector to take the initiative on wider social programmes. MNEs are encouraged to act as an agent for change, implementing best practice within their business networks and act as role models for the broader economy.

With liberalization, states have a constrained capacity to provide social services as well as collective and quasi-public goods due to the shrinking of the government sector. States are also unable to offer adequate social security safety nets, and the private sector has not picked up this slack. The contemporary context has also seen a growing precariousness of employment, as many locations that benefitted from GVCs struggle to retain investments and jobs when wages rise. This has contributed to growing within-country income inequalities.

We have developed a research agenda to address the question how MNEs can mitigate negative effects and enhance positive effects on within-country equality (while simultaneously promoting economic development). MNEs cannot be expected to address within-country inequality in isolation, and as such we have explicitly considered the interaction between MNEs and states. In our research agenda, we have considered multiple levels of analysis. At the micro-level we considered how MNE policies and practises may influence the inequality of opportunities of their employees. At the meso-level, we discussed how the MNE-state compact shapes inequalities through its influence on industrial policies, economic structure and GVCs. At the macro-level we focussed on how MNEs' role in the MNE-state compact can influence the priorities of the state in addressing inequalities. As we have emphasised, states are instrumental in deciding how surplus rents are redistributed between the state (and the ruling elites), domestic capitalists and MNEs. Each of these levels are clearly interconnected, and it is essential to take a systems view, as there are numerous significant interactions and effects to be considered. As we have highlighted in figure 2, there are multiple paths by which there can be positive normative outcomes.

How countries define, prioritize and enforce the rights of their citizens and the economic actors located within their boundaries speaks directly to the distribution of equality of opportunities. Gender-related government policies, for instance, affect the attractiveness and rights of women as MNE employees, which then, in interaction with MNE-specific gender constructions (Vaara et al. 2021), determine the opportunities for women in MNEs (Van der Straaten et al., 2020).

Our discussion on the inequality of opportunity inequality has necessarily been truncated, for reasons of both space and evidence. The wickedness of inequality implies that its dynamics are uncertain, complex, erratic and ambiguous, and involve a multitude of private and public stakeholders and interests (Eden & Wagstaff, 2021). Indeed, the constructs of inequality of opportunity, effort and outcomes are interrelated in non-trivial ways. For instance, Ibarra-Olivo (2021) found that MNEs' wage premium for unskilled labour - which in principle is a good policy - can produce perverse effects on teenagers in nearby high schools, who, attracted by the prospect of earning a relatively high salary in an MNE, drop out of school, limiting their options later in life. By changing the expected returns on education, MNEs affected individual decisions on effort, resulting in a decrease in opportunities for these individuals in the long run. This is just an example of the possible interactions and reverse causations that may exist between the relevant constructs, whose understanding is crucial to help managers and policy makers to fine-tune practice and policies as to avoid perverse effects and unintended societal consequences. Based on these considerations, we suggest that IB research should delve more into these complex and longer-term interactions to better identify and understand MNE impacts on inequality.

Not all the negative effects of MNEs on the inequality of opportunities are intentional. Though cases of intentional misbehaviour on the part of MNEs are ample (see Cuervo-Cazurra et al., 2021 for an overview), many of the negative consequences are more complex and ambiguous in terms of cause, intent, and responsibility. It is exactly this complexity, combined with the significant impact on the lives of those affected, that warrants more careful study. Negative outcomes can also be the unintended consequences of 'good' intentions by the state or by firms (Narula, 2019). A better understanding of the link between MNE activity and inequality can help in identifying how to mitigate these potential negative effects, and enhance positive ones.

It is worth emphasising that government policies to reduce societal inequalities are not necessarily those that promote international competitiveness (and by extension, the locational attractiveness to MNEs). Our historical overview makes it clear that finding an appropriate balance remains a challenge for states. Too much emphasis on equitable distribution of opportunities can be at the expense of private investment, in an era of footloose investors and GVCs. High or low inequalities can exist with or without commensurate high or low growth. Low levels of domestic inequalities can exist in the absence of either growth or investment (Cuba), just as within-country inequalities can rise in the presence of both high levels of economic growth and MNE activity (China). Finding an optimal balance remains a critical avenue for IB research, but meaningful answers require a cross- and multi-disciplinary approach, drawing from Sociology, Political Economy and Economics, amongst others.

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Figure 1: The evolving relationship between the state and the MNE, and the shift from between-country to within-country inequality

MNEs [or 'foreign capital' (pre-1900s) or MNE-led GVCs]

MNE prioritises domestic activities that provide it sufficient returns. The degree to which it adapts activities to align with the state's objectives defines the 'MNE-State Compact'. The compact can be weak or strong, and may merely be a superficial alignment in principle, or a explicit set of formal agreements.

The State

Sets development goals and priorities (e.g., employment, knowledge transfer, taxes, linkages with domestic actors). It defines policies that protect rents, property rights, and provide appropriate location advantages. The state determines the degree to which policies align to MNE needs (or domestic actors).

MNE-state compact is shaped by two key decisions of the state:

1. How to share the surplus from MNEs between specific groups;

2. Degree to which state prioritises economic catch-up, inequality reduction and international competitiveness.

Mid-1700s- late 1800s: Foreign capital: primarily free-standing companies or trading houses.

Bargaining power within compact lay with State. State's goals were largely economic catch-up **(between-country inequality)** with leading economies, through industrialization.

Surplus shared within political elites/ traditional landowners, later with domestic industrialists

Early 1900s-1980s – era of the modern hierarchical MNE – initially multidomestic activities in most countries, with globalization came increasing coordination and rationalization.

Bargaining power remained with the State. Most developing economies followed import substituting industrialization polices, with strict local content, employment etc quotas. Handful of export-oriented economies also had similar commitments.

Latin America (and India): Focus of state shifted to **within-country inequality** not competitiveness, sharing surplus with workers, in part due to worker activism.

East Asia shared surplus with domestic industrialists, where unions were weak, and competitiveness was prioritised.

Regime changes toward authoritarianism during this period saw shifts in rent distribution from domestic inequalities to political elites.

1990s-present: MNEs become complex dispersed networks, with growing use of non-equity relationships, and increasingly MNE-orchestrated GVCs.

1990s-2010s: Bargaining power shifts to MNEs, as liberalization sees rising demand for investment. State focus moves to **balancing inequality and competitiveness**, but shift in power sees MNEs and domestic enterprise retain more of the surplus. Within country inequality rises globally.

2010s-present: States become more interventionist, with rising techno-nationalism, in backlash to globalization and growing emphasis on **within-country inequality**. Bargaining power shifts somewhat to state, but MNEs retain footloose capacity, relying on networks of non-affiliated actors. Increased competition between states for private investment likely to reduce capacity to extract commitments from MNEs towards state development agenda.

Figure 2: MNEs and Inequality of Opportunities at Multiple levels

MNEs and Inequality of Opportunities at a structural level

Micro (firm) -level

At the firm-level, inequality is affected through hiring, retention and promotion policies, as well as by its procurement policies through the choice of suppliers or other partners.

Meso-level

Through their location choice for their physical operations, MNEs can affect regional inequalities. MNEs can choose to engage with the suppliers from the informal sector, and the extent to which MNEs contract transfer best practice or enforce higher of lower labour standards.

Macro-level

States can establish inclusive institutions to encourage rent-sharing. MNEs can influence institutions, at the extreme to engage in regulatory capture, in self-interest, or to reduce inequalities.

MNEs can be Passive conduits of domestic formal and informal institutions, by replicating the priorities fostered or endorsed by the host society, or by the state.

OR

MNEs can proactively apply alternative norms, for example, those of its home location, or that of key stakeholders (such as NGOs) transferred through the MNE's internal structures.

OR

MNE can act on behalf of the state as an agent for change, by country-wide implementation of higher norms mandated by the state, but which the state is unable to implement due to resource constraints.

Possible normative outcomes

Micro-level

MNEs can seek to improve opportunities for marginalized groups within the MNE, and within its networks of domestic suppliers.

Meso-level

MNEs can decide to follow government horizontal and vertical industrial policies and spatially-targeted policies, to help address informality, structural imbalances and promote greater local GVC participation.

Macro-level

States can establish inclusive institutions to encourage rent-sharing. MNEs can influence institutions, at the extreme to engage in regulatory capture, in self-interest, or to reduce inequalities by influencing governments to address them.

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