Academy of International Business

Insights

Volume 2, No. 3, 2002

Comments from the Editor

Comments and suggestions should be sent to the Editor

Please send articles and classroom material to the Editor for consideration for upcoming Insights - consider reprints of speeches you have made

Readers are encouraged to submit comments, for possible inclusion in future Insights

Thanks to everyone for making ***AIB Insights*** a success. The Board has been very supportive, the staff in Hawaii have done a great job, and my advisory group have provided quick and valuable insights on articles submitted for publication. I have agreed to continue editing ***AIB Insights*** for a while longer, and look forward to your further support. Christina Brewster will be assisting me with this.

Betty Jane (BJ) Punnett, Editor

The current edition of ***AIB Insights*** includes three topical articles, which offer important insights into the international business world today.

- One, entitled *The Power of the Muse: The Influence of International Business Scholarship* is by Alvin Wint. Alvin Wint is Professor of International Business and Head of the Department of Management Studies at the University of the West Indies, Mona Campus.
- The second, entitled *Reducing World Poverty* is by Carl Nelson. Carl Nelson is Professor of International Business at The International School of Management (ISM) in San Diego, California and author of seven books about international trade and economic development.
- The third, entitled *Multinationals and Corporate Social Accountability* is by Ans Kolk. Ans Kolk is Professor of Sustainable Management, University of Amsterdam, Amsterdam graduate Business School, The Netherlands.

The Editor is planning upcoming issues of ***AIB Insights*** on the following topics:

- The History of International Business
- The Future of the AIB
- Small States - Business as engines for growth?
- Sept 11th - Medium term effects - Business/economics?

Please send Submissions, suggestions and comments on these and other potential topics to the editor.

Insights provides an outlet for short, topical, stimulating, and provocative articles. Please submit materials for consideration to the editor - Betty Jane Punnett at eureka@caribsurf.com. Submissions are reviewed by the Advisory Board

These can be accessed through the AIB Website ***www.aibworld.net***

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Submission Information

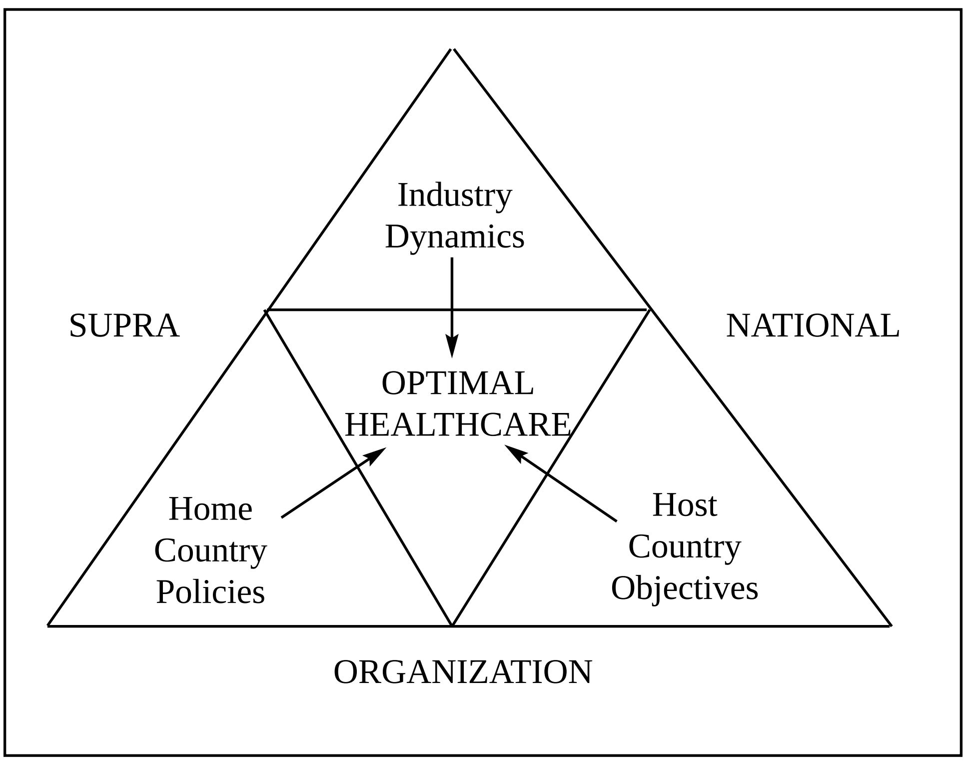
• Submissions to Insights can be sent at any time to the Editor.
• Submissions may be electronic, by fax, or by mail. *Electronic submissions are preferred.*
• Submissions will be reviewed by the Editor to ensure material is appropriate for Insights, then the advisory board will comment on submissions.
• For consideration for specific editions, submissions must reach the editor by the following dates:

1st Quarter:	December 15	3rd Quarter:	June 15
2nd Quarter:	March 15	4th Quarter:	September 15

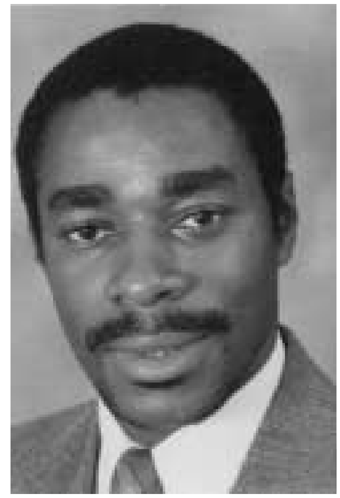
• Articles should be approximately 2-3 printed pages.
• Exercises, simulations, and other material should include all the information needed for use in the classroom. Material submitted should not contravene any copyrights.
• Blunders should be based on real-world events and should be new - i.e., not previously published, or disseminated in other media.

We look forward to your comments and submissions. - BJ

Note: *The below figure was erroneously omitted from Walter E. Longo and Sumit K. Kundu's article "The Effect of Health Care On Globalization" which appeared in the Vol 2, No 2 issue of* ***AIB Insights***. *An amended version of the issue can also be found on the AIB website at www.aibworld.net. We regret this error.*



The Power of the Muse: The Influence of International Business Scholarship



Alvin Wint, University of the West Indies

There are, I suspect, very few academics who would disagree with the notion that an academic position represents one of the world's best jobs. Yet, who amongst us has not wondered at times about the impact of our scholarly work, or heard the story, which is probably apocryphal, that the average readership of a scholarly article is less than a handful of persons. But even while, in our moments of self-flagellation, we wonder, at heart we know, and are routinely reminded by the on-going references to that famous Keynesian quote, that the academic as thinker and knowledge creator has a fundamental and far-reaching influence on society.

This is as true in international business, as in any discipline, and, I suspect, more true than in many. We all have our own stories of the influence of the academic that derive from our own areas of research interest. I present in the next several paragraphs three instances of influence in the research areas of national competitiveness and FDI policy and promotion.

Krugman on National Competitiveness

Those of us with a research interest in the area of national competitiveness are aware that Paul Krugman argues that this term is meaningless. He concludes a chapter entitled "Competitiveness: A Dangerous Obsession," as follows: "So let's start telling the truth: competitiveness is a meaningless word when applied to national economies. And the obsession with competitiveness is both wrong and dangerous."[1]

The essence of Krugman's argument is that the competitive metaphor that works well in the context of the performance of firms within an industry is far less effective in efforts to understand the forces that drive the prosperity of an economy. In particular, with respect to economies, he points out that: "the idea that a country's economic fortunes are largely determined by its success on world markets is a hypothesis, not a necessary truth; and as a practical empirical matter, that hypothesis is flatly wrong."[2] His principal

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argument is that a country's success is determined by the productivity of its people, operating across all sectors and that this, rather than imprecise notions of competitiveness, should be the focus of policy.

Krugman buttresses his argument, using examples from large, advanced economies such as the United States and Japan. He points out that although so much popular literature has been devoted to economic competition between these two countries, in fact, these economies are largely independent rather than interdependent economies. In 1999, for example, exports of goods and services accounted for only 12% of the Gross Domestic Product of the United States. The comparable figure in Japan was 11%.

My initial reaction to Krugman's argument was that clearly he is correct in suggesting that the critical determinant of a nation's prosperity is its average level of productivity. And also that, for large, advanced economies, this prosperity is not related primarily to the nation's ability to compete on world markets. The Japanese experience of recent years, certainly provides an excellent vindication of Krugman's perspective. A country that had done well by focusing on exports, is now experiencing a decade-long recession because of a lack of attention to domestic policy reform, even while its export engine continues to dominate world markets in several product categories.

But it also seemed to me that in relation to smaller economies, for which I have a particularly strong research interest, the ability to compete on world markets would, indeed, be essential to national prosperity. Unlike large economies, for example, small economies do rely heavily on international trade. Yet, interestingly, even though it is clear that small countries that are tightly integrated into the world economy out-perform their less integrated counterparts, recent work in this area suggests that the extent to which a small country produces goods and services for export does not assist in explaining the variation in economic performance across small countries.[3] Suffice it to say, Krugman's work has ensured that those using the term national competitiveness will be more careful in their analyses.

Porter on Firm-Driven National Competitiveness

Krugman's essential point on competition, which is that it takes place at the level of the firm rather than the nation state, is one with which management scholars are in ready agreement. The notion of national competitiveness collectively deriving from the competitive impulses of firms is best known through the research on national competitiveness carried out by management scholar, Michael Porter.

Porter's characterization of the diamond of national competitiveness[4] has had a significant influence on issues of policy formulation in countries around the world. As one example of this influence, the consulting company, Monitor, founded by Porter, has been assisting many countries and regions to conduct cluster competitiveness studies that build on the framework of the diamond. Porter's work in this area, has also, of course, had significant influence, and provoked significant debate, within the international business scholarly community.

As is well known, Porter makes two fundamental arguments in his analysis of competitiveness as it applies to the nation state. The first is that the international competitiveness of industries in a country is driven by a "diamond-like" collection of variables including factor conditions, related and supporting industries, firm strategy, structure and rivalry, demand conditions, the role of chance and the role of government, with the latter two being subsidiary to the first four variables.

The second point is that countries operate at different stages of a competitiveness continuum: inclusive of factor-driven, investment-driven, innovation-driven and wealth-driven, with the various elements of the diamond taking on greater significance dependent upon a country's stage of competitiveness. Thus, at the factor-driven stage of competitiveness, most of a country's competitive industries would be internationally competitive based upon the country having a configuration of factors of production that is particularly relevant to the requirements of those industries.

"...to understand a Porterian perspective, it is useful to recognise that the stage of a country reflects the area in which the majority of industries, but not all, derive their competitive advantage..."

On the other hand, a country in the innovative stage of competitiveness would find that the most important factor driving competitiveness would be the sophistication of home-country demand. This approach to the performance of nations is not represented at all in classical or neo-classical economic theory, but it does follow the work of international business scholars, in particular the intellectual pedigree of Ray Vernon's product cycle theory.[5]

Importantly, to understand a Porterian perspective, it is useful to recognise that the stage of a country reflects the area in which the majority of industries, but not all, derive their competitive advantage. Thus, it is possible for countries in a factor-driven or investment-driven stage to have some industries that derive their competitive advantage from demand conditions. Similarly, it is likely that an innovative-driven country will have competitive industries deriving demand from factor-conditions, in addition, of course, to having industries that are not at all internationally competitive.

International business scholars concerned with either developing country competitiveness, or the competitiveness of small, open economies, have expressed concern about the explanatory power of a Porterian perspective in the context of small or developing countries. In terms of the applicability to small and open economies, Rugman & D'Cruz, based largely on the experiences of the Canadian economy, advocate a double diamond, in which the competitiveness of a multinational firm is linked not only to the diamond of its home country, but also to that of its host country, particularly focused on the infrastructure, government and resources of that country.[6]

In this regard, this double diamond model, in the context of a small, economy, places greater emphasis, and necessarily so, on the role of government and of infrastructure than a Porterian perspective. Barclay also finds support for the double diamond model in the context of the competitiveness of firms based in the Anglophone Caribbean.[7] There is, however, an extent to which these models speak past each other, since it might be argued that the elements in the double diamond model are implicit in a factor-driven explanation of competitiveness.[8] And further, that the elements of the double diamond do not provide for sustainable competitive advantage, nor indicate clearly where competitive advantage is derived.

In terms of the applicability of the Porterian perspective, Kapur & Ramamurti[9] suggest, in the context of the competitiveness of the Indian software industry, that a virtual diamond, which links Indian national conditions to the demand conditions of the United States, and the role of Overseas Indians in the United States, more adequately explains the success of that industry than a strictly Porterian perspective.

While the work of Porter has been extremely influential, the work of one of the scholars upon whose research Porter builds stands out as epitomizing the role of the influential scholar.

Vernon on FDI Policy and Promotion

In 1966, Raymond Vernon, one of the few individuals who could have claimed the scholarly field of international business as his progeny, had his well-known, seminal international business article published.[10]

In 1968, Lee Kuan Yew, the father of modern Singapore, took a short sabbatical from his position of head of state. He journeyed to Harvard University, where he met with faculty, in particular, with Professor Raymond Vernon of Harvard Business School. Lee Kuan Yew indicates that "Vernon dispelled my previous belief that industries changed gradually and seldom moved from an advanced country to a less-developed one."[11]

Acting on Vernon's advice, among others,[12] Lee Kuan Yew accelerated efforts to attract US multinationals to Singapore and, through the Country's Economic Development Board, initiated, over the next several decades, an aggressive campaign of investment promotion. This successful campaign has, quite possibly, been the most important element of a carefully orchestrated development strategy that has led to Singapore experiencing what is probably the most dramatic single-generation improvement in comparative living standards in the history of mankind.

I had heard about Lee Quan Kew's visits to Ray Vernon at Harvard Business School from Lou Wells. In the 1980s, Lou and I had also conducted first-hand research into the operations of Singapore's dynamic Economic Development Board.[13] But I never recognized the causal links between Vernon and the dynamism of the EDB until I encountered Lee's report on the influence of Vernon in Lee's autobiographical account of his own role in the development of the Singaporean economy.

To put Singapore's improvement in relative living standards in context, consider that in 1965 Singapore and Jamaica, countries of similar size, had approximately identical per capita incomes of US$500. By 2000, Jamaica's per capita income had risen in nominal dollars to just above US$2,400, while Singapore's had increased to over US$25,000. This dramatic difference, I argue, is attributable largely to variations in the economic and investment policies pursued by these two countries, with Jamaica's post-independence leaders drawing their intellectual inspiration from sources quite distant from international business.

I suspect that Ray Vernon would say -- international business scholars, onward muse.

END NOTES

1. See Paul Krugman, ***Pop Internationalism*** (Boston, MIT Press: 1996), p.22.
2. See Paul Krugman, ***Pop Internationalism***, prior citation, p. 5.
3. See Alvin G. Wint, "The Competitive Advantages of Small Nations," Presented at Academy of International Business Annual Conference, Puerto Rico, June 2002.
4. See Michael Porter, ***The Competitive Advantage of Nations*** (New York: Free Press, 1990).
5. See Raymond Vernon, "International Investment and International Trade in the Product Cycle," ***Quarterly Journal of Economics***, May, 1966, pp.190-20.
6. See Alan Rugman & J. D`Cruz, "The Double Diamond Model of International Competitiveness: The Canadian Experience," ***Management International Review*** 33, Special Issue, pp. 17-39, 1993.
7. See Lou Anne A. Barclay, ***Foreign Direct Investment in Emerging Economies: Corporate Strategy and Investment Behaviour in the Caribbean*** (London: Routledge, 2000) for a comprehensive analysis of the operations of multinational corporations in the Anglophone Caribbean and the interactions of these firms with national competitiveness.
8. There are at least two reasons why these models speak past each other. The first is the preoccupation of the international business scholarly community with the activities of multinational corporations. Porter, who is not formally a part of this scholarly community, and would feel no need to pay allegiance to the shibboleths of that community, only included multinationals as a by-product of his analysis, pointing to the fact that an over-reliance on them would be likely to ensure that a country stayed in the factor-driven stage of development. The other reason that the Porter model was bound to lead to scholarly disagreement, however, relates to the "straining of intellectual credulity" evidenced when he implicitly includes, based on his research conducted in the late 1980s, countries as varied in levels of development as Niger, Jamaica, Australia, Canada and Singapore, for example, in the same factor-driven "stage of national competitive development."
9. See Devesh Kapur & Ravi Ramamurti, "India's Emerging Competitive Advantage in Services" ***Academy of Management Executive***, Vol. 15, No. 2, 2001, pp. 20-33.
10. See Raymond Vernon "International Investment and International Trade in the Product Cycle," prior citation.
11. See Lee Quan Yew ***From Third World to First World: The Singapore Story, 1965-2000*** (New York: HarperCollins, 2000), p.56. Indeed, so valuable did Lee find the discussions with Vernon, about the workings of contemporary economies and multinational businesses, that he indicated that "I returned every four years to learn more from him." See Lee, prior citation, p. 460.
12. Lee Quan Kew also speaks to the importance of the advice he received from Dr. Albert Winsemius, formerly of the UNDP.
13. See Louis T. Wells, Jr. & Alvin G. Wint, "The Public Private Choice: The Case of Marketing a Country to Foreign Investors," ***World Development***, Vol. 19, No. 7, 1991, pp. 749-761.

Reducing World Poverty

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What do you do when you're perceived as the biggest bully on the block and many people hate you for it? When the bully is America she begins to search for her human face.

An opportunity may have presented itself to President George W. Bush several weeks ago when Gordon Brown, Britain's chancellor of the exchequer proposed a new kind of Marshall Plan. This one would help the world's poorest nations, many of which are Muslim. Brown wants the richest countries including the United States and Britain to double their aid from \$50B to \$100B annually. The objective, to cut poverty in half by 2015 is the target developed from a series of UN conferences in the 1990s and reaffirmed in a recent white paper on international development.

Halving world poverty is a challenging target because much of mankind has not progressed beyond the seventeenth century when life was brutish and short. And the outlook is it will likely remain so unless the richest nations, who have the benefit of a significantly longer, healthier, and more enjoyable life, can figure out a way to ratchet up development.

There are several reasons why Mister Brown failed to get backing from Secretary O'Neill's office. The United States is in a recession, surpluses have dried up, and federal deficits are deepening. Except for emergency humanitarian assistance and limited military support, most Americans dislike foreign aid. They believe that government-to-government aid has been ineffective. Citizens from every political quarter cite corruption and mis-management. There is also suspicion that the United Nations is not the best vehicle for dispersing aid to impoverished nations. Foreign aid is often seen as a global welfare program that in the end

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causes recipients to hate the giver even more – there's something about charity that turns people and governments against hand-outs.

Nevertheless a human face for America is the order of the day – many of the poorest nations are leading the cheer against the American bully. Cutting poverty in half by 2015 is a noble goal because extreme poverty is morally offensive in a world where so many are so rich.

> "What we need is a different approach to reducing poverty. One that acknowledges that grant aid does work for infrastructure projects such as bridges, roads, dams, electrification, etc., but does little for sustained job growth."

But is there a better way than throwing money at the problem?

Director-General Mike Moore of the World Trade Organization argues that the best way to reduce poverty is through private sector cross-border trade. We do know that the reduction of tariff and non-tariff barriers beginning with the Kennedy Round in 1963 has resulted in an incredible increase in global wealth. The 17-fold rise in world trade has gone hand-in-hand with a six-fold rise in world output.

United Nations statistical data shows that during the period 1970 through 1989 Gross World Product (GWP), in terms of Purchasing Power Parity, expanded at a six fold rate from about U.S. $3 trillion to over $19 trillion. Today GWP is greater than $25 trillion. Barring another mass war, it could be as much as U.S. $80 trillion by the year 2030 and more than $100 trillion by 2050. International trade increased from less than U.S. $100 million shortly after World War II to over $6 trillion today and could be as much as $25-30 trillion mid-century.

Despite exploding populations in some nations, world per capita GWP grew at the same six-fold rate from less than $1000 per person in 1970 to almost $6 thousand in 1989. Middle-class growth is also on a tear. Born overnight in emerging markets middle classes in China, Indonesia, India, Turkey, Poland, and Brazil, account for the greatest change in per capita growth.

The problem is that the results have been uneven. While a small group of rich- and middle-income nations have seen a significant increase in income, 1.2 billion people have per capita incomes of less than a dollar a day. Another 1.6 billion subsist on less than $600 a year.

The original Marshall Plan showed that preferences work. Japan, Germany, and Italy came back from post-war disaster through a combination of tariff preferences and grant aid programs aimed at kick-starting bombed-out industries. South Korea which was once as poor a Ghana is now as rich as Portugal, the result of preferences and opening markets. In simplest terms these low-income countries made things at home and sold them in countries where people had money thus completing the cycle of development by bringing the foreign exchange difference back home.

What we need is a different approach to reducing poverty. One that acknowledges that grant aid does work for infrastructure projects such as bridges, roads, dams, electrification, etc but does little for sustained job growth.

For most of the less-developed nations their only resource aside from raw materials is their abundance of cheap, often untrained labor. What is needed is economic development that trains and at the same time transfers technology thus creating sustainable job growth through entrepreneurial activity.

We know what works. Over the past thirty years one miracle mechanism known as "production sharing" has put low-wage people to work and also provided needed training and technology transfer. Coupled with tariff preferences, programs like the Mexican Maquiladora program and the Asian Economic Zones have silently done what foreign grant aid has failed to do. Host countries offer trade creation schemes that attract financial capital to their economic zones. The inflow of capital brings with it jobs, technical training, technology, and the needed spirit of entrepreneurship all of which are the major contributors of sustained job creation and the building of a middleclass.

However, many of the suffering countries are too poor to offer needed preferences; therefore, why can't wealthy nations come up with schemes that encourage private businesses to participate in economic development as an aid to reducing poverty?

Multinationals have demonstrated a painless method to change economic conditions. These global businesses have participated, through the market, in the world-wide transfer of capitalistic know-how. The evidence is clear that free trade not foreign aid is the engine driving China, Japan, the Tigers of Asia (South Korea, Singapore, Hong Kong, and Taiwan) as well as many

South American countries. Even nations such as Slovenia and South Africa are growing at rates greater than seven percent.

As a result of the victory of capitalism over communism the private sector leads the march of global economic development. Worldwide, venture capital markets have grown to take advantage of the entrepreneurial fires that free markets sparked.

Aside from the occasional outcry that production sharing programs steal jobs from the home country, do not meet world ecological standards, and sometimes violate child labor laws, Americans like this kind of economic development because it provides invisible preferences and it is hands-off by governments. Private sector cross-border business motivated by self interest and profit have proven to be the best engine for economic development. Labor is mobile – it moves freely across borders, that is, labor moves to production and conversely global businesses, as fickle as they are, go to the best deals. Lifting the levels of human welfare is not often thought of as a business objective, but global businesses are already doing it and the approach is not altruism. It is good business, is not painful, and is the right thing to do. There are distinct advantages to encouraging global businesses to take a larger role in economic development. They have a stake in increasing the world's middle-class thereby creating markets for the expansion of their programs.

Global companies can expand their development efforts to relieve government of foreign aid responsibilities. To do so they would have to adjust their organizations to include a development staff. Then, focus on investing in industrial activities for job building and training. They could also team with local government and supranationals for infrastructure investment. It is unlikely that the multinationals will volunteer; however, should they not, government must not hesitate to intervene with suitable incentives and or penalties.

Instead of doubling our grant aid hand-outs America should show her human face by coming out of the closet about production sharing as a primary means of economic development. Let’s double our support by giving private sector businesses preferences such as tax breaks to take their production to impoverished countries.

Blunders in International Business

A US company with a subsidiary in a small island state hired a local manager to run the subsidiary. The local manager came well-recommended by local contacts, was intelligent, well-spoken, and related well to the local workers. She was interviewed by a representative from headquarters and seemed to be an ideal choice for the position. Initially, operations went well, but it soon became clear that there was a problem, as major discrepancies surfaced in terms of inventory levels and accuracy counts of parts shipped. The underlying problem was finally uncovered. The manager could not do the basic arithmetic of adding or subtracting, and operating the subsidiary relied on these skills. No one had thought to ask about these skills because they were simply assumed.

The following story is based on a report in the *St. Petersberg Times*, December 30, 2001. The Tobacco Giant Phillip Morris funded a report in the Czech republic touting the economic virtues of heavy smoking to the population. The report stated that people who smoke heavily tend to die young saving the state the extra costs of providing these citizens with pensions in their old age. How is that for Corporate ethics and social responsibility!

MULTINATIONALS AND CORPORATE SOCIAL ACCOUNTABILITY

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In the past few years, the 'Janus face' of globalisation has received much attention, most notably at international meetings such as those of the WTO in Seattle and the G7 in Naples, and in a number of recent books.[1] Most recently, overall suspicion about corporate behaviour and accountability has been fuelled following accounting scandals of especially Enron and WorldCom. The most visible and influential companies, particularly multinational corporations are singled out in these debates on corporate governance and social responsibility. Since the early 1990s, multinational corporations have increasingly been targeted to show their commitment and the actions taken to prevent environmental pollution, human rights violations and other 'externalities' of international trade and production.

This in fact represents a second wave of attention for the international social and environmental implications of multinationals' activities. Interest in this topic first started in the 1970s, resulting, at the time, in attempts by international organizations such as the OECD, ILO and UN to draw up codes of conduct to regulate multinational behaviour. Some multinationals reacted by adopting codes or introducing their own 'rules of engagement'. In the US and a few European countries, social reporting emerged, but usually with the more limited objective of disclosing information on employee matters, and sometimes also environmental and local community impacts. Overall, however, this development lasted less than a decade.[2]

In the 1980s, mandatory international codes turned out to be unfeasible, and interest in codes of conduct, social reporting and the international dimensions of corporate behaviour faded away. At the same time, however, policies that entailed less government intervention and liberalisation of markets facilitated globalisation, creating a social and regulatory void in which non-governmental organisations (NGOs) gradually started to express their concerns about the negative environmental and social implications.

In the 1990s, NGOs and international organisations thus renewed the efforts to increase corporate social accountability, to which companies and their business associations responded. Multinationals have started to adopt codes of conduct and publish environmental, social or sustainability reports. Our research on corporate social responsibility and accountability, carried out in the past five years, shows the increasing activity of large multinationals.[3] Currently, 65% of the largest 200 industrial MNCs has a corporate code of conduct, and almost 60% publishes a sustainability report on environmental and sometimes also societal issues.

Within this general development, there are some differences between sectors and countries, and variations depending on the topic at hand. The financial sector is, for example, less active in the publication of sustainability reports, although percentages are increasing here as well. Of the banks and insurance companies in the Global Fortune 250 companies, 25% published a sustainability report in the past year, for the industrial sectors this was more than 50%. Compared to three years ago, this represents an increase of more than 10% for both sets of companies. The percentage of European and Japanese MNCs with a sustainability report is considerably higher than in the case of US MNCs. This is related to higher degrees of internationalisation of these MNCs, but also to domestic regulatory requirements, other forms of explicit government encouragement or stakeholder pressure for social accountability. With regard to codes of conduct, US MNCs show much more activity and started to adopt such rules of behaviour considerably earlier than European and especially Japanese MNCs. In Japan, codes tend to focus on internal ethical issues rather than international societal aspects. Moreover, some sectors are more 'vulnerable' to criticism than others. The issue of child labour, for example, is most controversial in labour-intensive sectors such as apparel and carpet production, and linked to the structure of multinationals' production network and their corporate visibility.

With these variations, however, it can be concluded that accountability on social and environmental issues has become rather common for many multinationals. The question is, however, to what extent current forms of disclosure address the concerns raised about the negative implications of globalisation. In other words, what can be said about the significance and 'sustainability' of this development? It must be noted that such an assessment depends to a considerable extent on one's position in the debate on the 'Janus Face'.

On the one hand, the increasing corporate tendency to report on the social and environmental aspects of business activity can be viewed as positive. The overwhelming majority of sustainability reports contains at least some environmental performance indicators. Likewise, environmental accounting practices are spreading, especially in Japanese MNCs which tend to closely follow the reporting guidelines published by both the ministry of the environment and of economic affairs (MITI). Moreover, almost one third of the reports has been externally verified, so far mainly with regard to the environmental data, which helps to improve the reliability of the information, and to move reporting beyond mere statements of intent. With regard to codes of conduct, almost half is rather specific with regard to the issues covered, and one quarter pays explicit attention to monitoring systems and mechanisms, which increases the likelihood of actual implementation and compliance. Experience is building up with external monitoring of codes of conduct, especially in MNCs involved with the production of products such as toys and apparel.

On the other hand, however, the vagueness of sustainability reports and codes of conduct can be emphasised, by designating them as mere window-dressing, driven by public and government pressure, and likely to fade away when these forces recede. Similarly, the external verification of reports and codes might be viewed as a matter of 'professional capture' and a 'managerial turn' rather than something which helps to increase accountability. Moreover, an audit process frequently lacks transparency and is characterised by a problematic relationship between companies and auditors, as recent accounting and audit failures illustrate. In addition, most sustainability reports turn out to deal more with 'traditional' reporting topics related to environment, health and safety, employee relationships and philanthropy and charitable contributions, than with the international social dimensions of corporate activity. Performance indicators on these external societal issues are used only seldomly. Finally, a substantial number of corporate codes is not very specific about scope and monitoring.

Whereas personal beliefs and characteristics certainly play a role in the perspective one takes, some conclusions can nevertheless be drawn. The existence of legislation and government incentives concerning sustainability reporting in Europe and Japan help to maintain a certain level of reporting, guaranteeing both quantity and quality. Moreover, there are a number of companies where reporting, either compulsory or voluntary, has been accompanied by the routine collection and calculation of environmental performance data, thus becoming part of regular processes. This is helped by the discovery of economic benefits of sustainability (reporting) on which a few multinationals have started to disclose information. These business drivers range from higher efficiencies, lower costs and risks, to improved relationships with stakeholders and a better reputation. In these cases, sustainability reporting might well become a sustained practice where the momentum can be kept even if outside pressure diminishes. This is more likely for environmental than for social issues, in view of the former's impact on production processes and products. At the same time, there is a considerable number of MNCs where reports are not more than statements of policies and intentions, without real substance and much quantification of environmental, let alone societal, impacts. In these companies, reporting might well be a passing fad if it is not embedded in regular processes or companies are forced to continue the practice.

With regard to codes of conduct, the picture is different to some extent, because they do not report on past activity but usually embody intentions and business principles. The likelihood that they are accompanied by clear indicators for performance, implementation or compliance – in the code itself or in other supporting documents – is therefore considerably lower, and seems to require more stakeholder pressure. Concurrently, however, there are MNCs which, as a result of such external attention, have integrated reporting and feedback on their ethical and international social behaviour in their regular process, sometimes as part of their sustainability report. This means that the two-pronged development, as sketched for sustainability reporting above, applies here as well, although the chances for sustained adoption on a large scale are smaller.

Overall, though, the very process of globalisation, and the increasing size and impact of internationally operating companies, has also created the conditions for continued vulnerability and external scrutiny of MNCs. Corporate social accountability is therefore likely to remain a constant source of attention for many of them. But it can be expected that, in view of the very broad range of potential reporting topics, MNCs will gradually move to a more selective approach in which they choose, presumably in interaction with their stakeholders, the most relevant issues on which they will focus their reporting and accountability efforts.

References

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