Chapter 11

National Income Inequality, Society, and Multinational Enterprises

Nathaniel C. Lupton
University of Lethbridge, Canada

Guoliang Frank Jiang
Carleton University, Canada

Luis F. Escobar
University of Lethbridge, Canada

ABSTRACT

This chapter calls for understanding the perspective of multinational enterprises (MNEs) on international differences in income inequality. The authors set a research agenda on how national differences in income inequality influence MNE expansion strategies. Applying a transaction cost framework, both negative and positive economic outcomes of income inequality, from the MNE’s perspective, are identified. Low levels of income inequality may deter foreign investment, as MNEs prefer countries where they incur lower levels of transaction costs arising from interactions with various market and non-market actors. However, the positive effect of income inequality on location attractiveness will likely diminish at higher levels of inequality when benefits are increasingly offset by additional monitoring, bargaining and security costs owing to instability and conflict. The chapter further explores the implications for level of MNE equity applied in the choice of entry mode under different levels of income inequality.

INTRODUCTION

In this chapter, we begin a discussion, and call for novel research, on how multinational enterprises (MNEs) respond to national income inequality worldwide. Prior research on MNE strategy has detailed how location characteristics, comprised of land, labor, infrastructure and capital endowment, along with institutional quality, impact the ‘where’ and ‘how’ of international expansion (Nielsen, Asmus-
National Income Inequality, Society, and Multinational Enterprises

The role of societal characteristics, however, receives much less attention. One societal characteristic that has received much attention lately is income inequality. Recent studies provide evidence that long-term rise of income inequality leads to slower economic growth (OECD, 2015), implying that there is a more direct relationship between economic investments and inequality. Our goal, therefore, is to motivate a research agenda aimed at understanding the MNEs’ preferences for varying levels of income inequality (i.e. location attractiveness), and how it impacts the MNEs’ expansion strategies (i.e. cost and benefits of inequality).

Figure 1 depicts a simplified overview of what is known about the interrelations between income inequality, society and the firm. Income inequality impacts social conditions including crime, quality of life, and unrest, and also impacts economic growth and political stability (Neckerman & Torche, 2007). The firm affects inequality as it is the primary mechanism through which incomes are provided (Cobb, 2016). What is so far missing from current research is the effect that the societal impacts of income inequality have on the functioning of business operations. Our chapter thus aims to flesh out this relationship by applying a transaction cost lens to predict how the social outcomes of different degrees of income inequality impact the economic interests of the MNE. By better understanding this relationship, we will be able to predict how income inequality impacts MNE decisions on international expansion, such as location choice and entry mode.

Following this introduction, we briefly define income inequality, its measurement, and its known outcomes. Next, we review literature on MNE expansion strategies to deduce how the social consequences of both low and high income inequality will impact them. In this section, we apply a transaction cost lens (Williamson, 1985) to relate the social and economic consequences of income inequality to economic costs and potential benefits for firms. We follow this with a section outlining our tentative predictions on the extent to which the MNE will exhibit a preference for income inequality, depending on its economic motives for expansion. This section also directs future research on how the MNE may use organizational structure, namely entry modes such as wholly-owned subsidiaries, joint ventures, etc., to buffer the firm from the negative consequences of social conditions induced by income inequality. Finally, we call for research on how MNE experience, including the nature of its home country income inequality and international experience will also shape the MNE’s general preferences towards income inequality.

Figure 1. The position of the multinational enterprise between inequality and society
Related Content

Comparative Cross Cultural Study of Indian Managers’ Perspectives On Doing International Business in Bedouin And Guanxi Culture

Factors Affecting Customer Loyalty in NCR: An Analysis
[www.igi-global.com/chapter/factors-affecting-customer-loyalty-in-ncr/191355?camid=4v1a](www.igi-global.com/chapter/factors-affecting-customer-loyalty-in-ncr/191355?camid=4v1a)

Influencing Factors and the Acceptance of Internet and E-Business Technologies in Maritime Canada’s SMEs: An Analysis
[www.igi-global.com/chapter/influencing-factors-acceptance-internet-business/54834?camid=4v1a](www.igi-global.com/chapter/influencing-factors-acceptance-internet-business/54834?camid=4v1a)

Economic Freedom and the Impact of Technology on Productivity
[www.igi-global.com/chapter/economic-freedom-impact-technology-productivity/54939?camid=4v1a](www.igi-global.com/chapter/economic-freedom-impact-technology-productivity/54939?camid=4v1a)