

# Systems of Governance for Complementarity and Competitiveness

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# Structure

- Introduction: Importance of Complementarity and Competitiveness in the Developing Country Context
- Systems of Governance: Definition
- Systems of Governance: Framing and mechanism
- Drivers of Complementarity: Coordination and Interdependency
- Drivers of Competitiveness: Firm and national level.





# Importance of Complementarity and Developing Country Context

- MNCs are incredibly important in global economic and social development but the negative impacts are also well documented.(Blowfield 2005; Banjaree, 2011)
- Shortcomings of traditional foreign aid and declining finance has led MNCS to be sought after as partners or as a supplement to traditional development assistance. (Williamson, 2010; Nunnkamp 2004)
- There has been a multitude of instruments, codes, principles emerging around the Millennium development Goals (MDGs), driven by a number of different actors, using different mechanisms. The impact and usage of these codes has been variable.
- This raises the question, what governance mechanisms need to be in place to align business activities with ODA and CSOs to enhance development agendas and to enable complementarity? **What are the drivers** of complementarity?



# Stage 1: The Importance of Competitiveness in the Developing Country Context

- Relationships and local knowledge are important for competitiveness in the developing country context:
  - MNCs can suffer from the “curse of foreignness” (Rugman and Verbeke 2003).
  - Research shows that inter-firm cooperation and institutional factors were essential for competitiveness (Mesquita, 2007; Hoskisson et al 2000).
  - Knowledge acquired by subsidiaries can be transferred up into the MNC and embedded in MNC network (Rugman and Verbeke, 2003).
  - Knowledge flows enable MNC to respond to competitive pressures in multiple markets, and make new products based on customer needs (Almeida, 1996)
  - Developing country conditions and characteristics, skills and resources can trigger creative processes (Pearce and Zhang, 2010)
  - Organizational knowledge is the most sustainable source of competitive advantage (Hitt, Hoskisson & Kim, 1997).
- Understanding **drivers of competitiveness** is key to understanding how to align ODA, CSO and MNC interests, and how different governance mechanisms influence sources both complementarity and competitiveness.

# Stage 2: The Importance of Institutions

- Institutions such as active and flexible government, policy regulation and enforcement and solid infrastructure influence competitiveness in a developing country context (Porter 1990)
- Complexity leads to MNCs struggling to grasp local business conditions due to the absence of institutions which supports MNCs in industrialised countries (Wood, 2002).
- Intermediate/Inter organizational level diffusion agents and political/institutional pressures, substantive pressures, level of critical reasoning influence how “imported” managerial practices are received (Wood, 2002).
- Governance type had an impact on the level of information sharing and preparedness for unexpected changes. More cooperative orientation, featuring network and trust based governance enabled more information flow (Koza et al 2007)
- So how do we start to frame the **role of actors, institutions, rules, codes, norms in aligning MNC behaviour** to the MDGs?

# “Systems of governance for responsible business practices”?

## Definition

- interrelated sets of norms, rules, instruments (incl. compliance mechanisms) that:
  - regulate collective matters in a specific issue area (here: Sustainable Development Issues)
  - Are potentially aligned through co-governance processes
  - Are at different levels (Macro and Micro)
  - Effective Systems of Governance should lead to complementarity and alignment of actions and interests on issues.

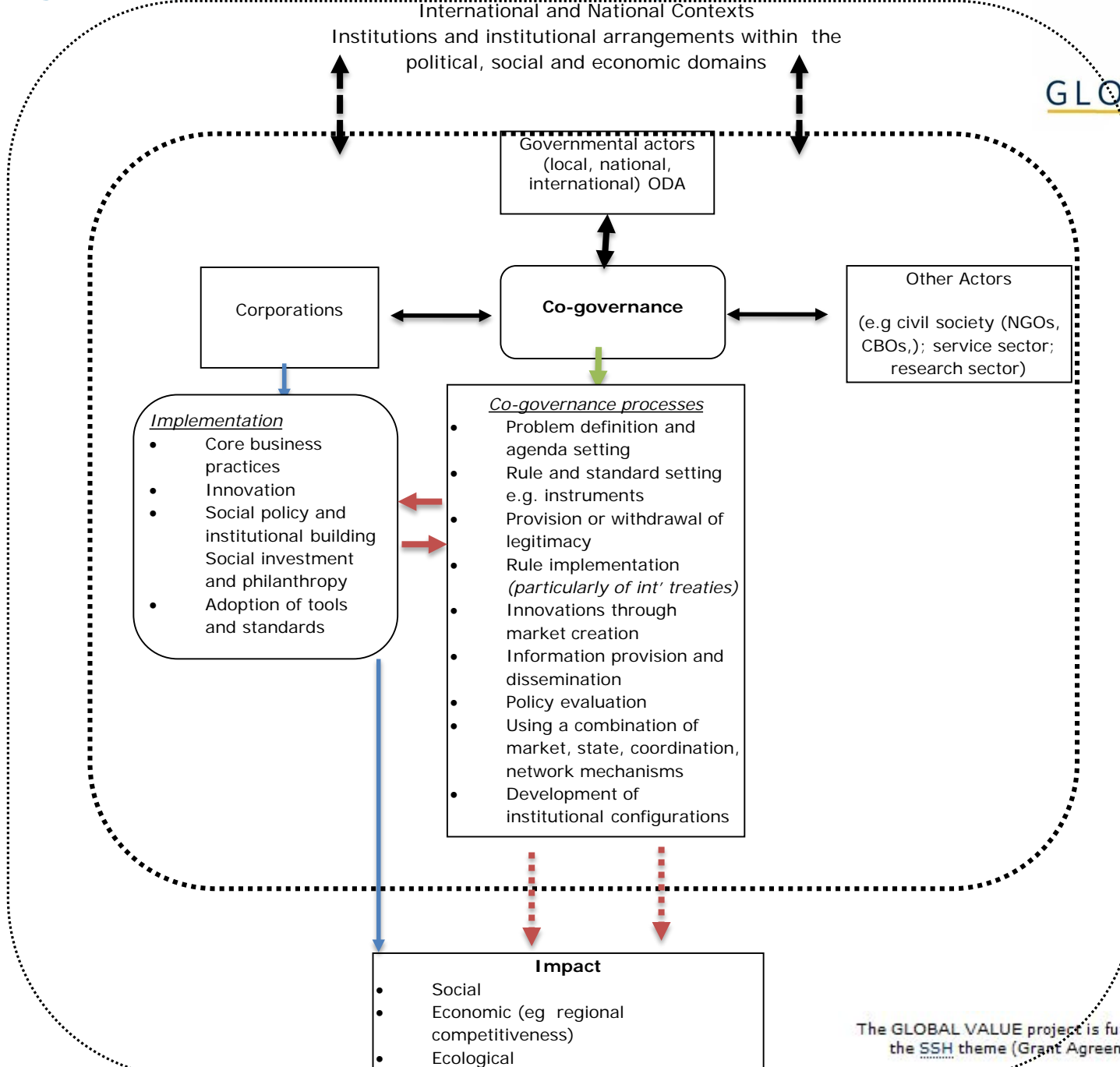
# What are “systems of governance for responsible business practices”?

- shaped by multiple actors (state, business, civil soc.) → network-/ co-governance

## **Actors with:**

- with different functions: information sharing, capacity building, rule setting, implementation, enforcement, sanctions
- with different contributions: provision of knowledge/ technical expertise, legitimacy, material resources
- Using a variety of different mechanisms of governance (eg market based, co-ordination based, network based)

# Figure 1: System of Governance : Framing and Mechanism







# But What about Complementarity?

- Complementarity is defined as “A relationship or situation in which two or more different things improve or emphasize each other’s qualities” so in this context, this is the alignment of actions and goals between different actors towards the achievement of MDGs.
- There can be complementarity at the macro and micro level
  - Moon and Kang (2011) define institutional complementarity as “a process of mutual reinforcement that enhances the value of both institutions”.
  - Hopner( 2003) “Complementarity is where components of a whole mutually compensate for each other’s deficiencies in constituting the whole”
- Two elements that lead to Complementarity: Co-ordination and Inter-dependence.



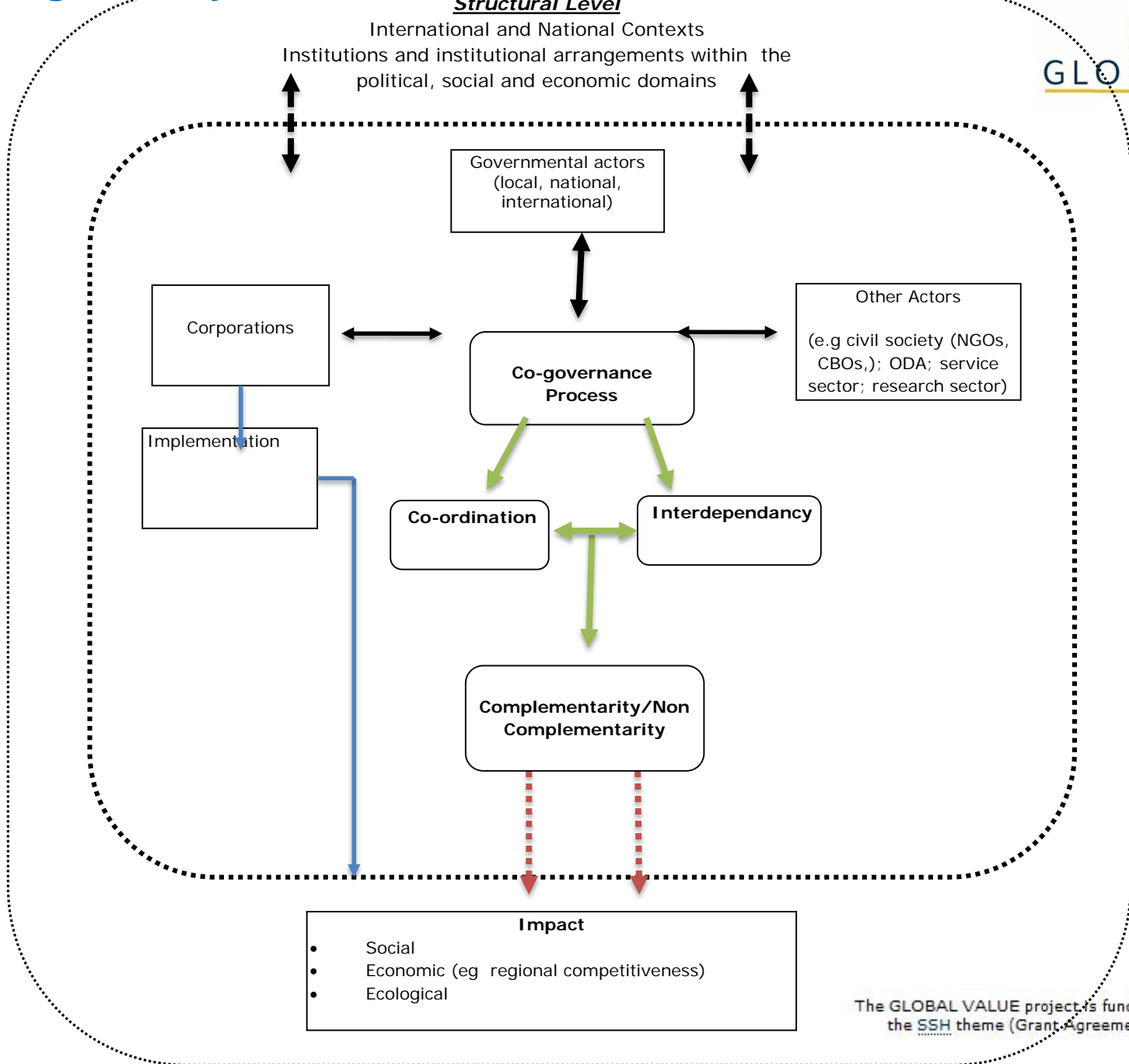


# Complementarity outcomes:

Co-ordination Inter-Dependence	Yes	No
Yes	Co-operation & Complementarity	Competition/ Conflict
No	Separation	“Complementarity by chance”



# Figure 1: System of Governance



**GLOBAL VALUE**



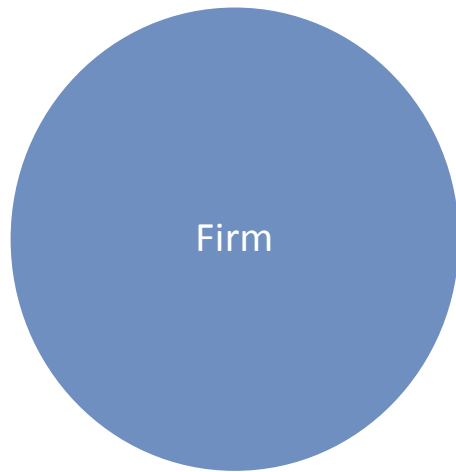


# What about Competitiveness?

- Competitiveness is a multi-level concept and can be analysed from the micro to the macro level (Martinuzzi et al 2010, Union 2008, Porter 2008)
- Competitiveness is a relative concept- relative to other firms, other sectors, other regions, other countries.
- Competition at the different levels has different definitions, however at all levels the concept of productivity and efficiency are central ( Porter 1985)



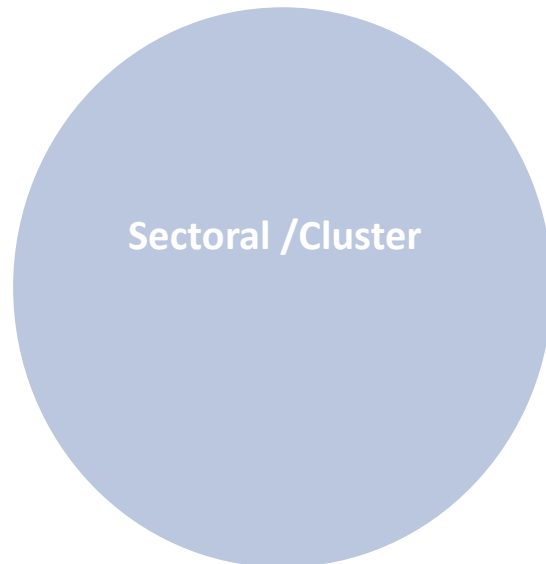
# Firm Level Competitiveness Definition



- “The ability for the firm to compete successfully in a given business environment” Porter (1980, 1998)
- Competitiveness at the firm level is associated with productivity and efficiency growth and is a function of the nature of the business environment of the firm (Porter 1998)
- Firms will either choose to compete on quality and/or other forms of product differentiation or on cost. Alternatively they will they can position themselves in a niche.
- Competitive advantage is superior economic value creation (Peteraf & Barney, 2003).
- This translates into comparable quality at lower prices, or quality differential at similar prices.



# Sectoral or Cluster Competitiveness Definition

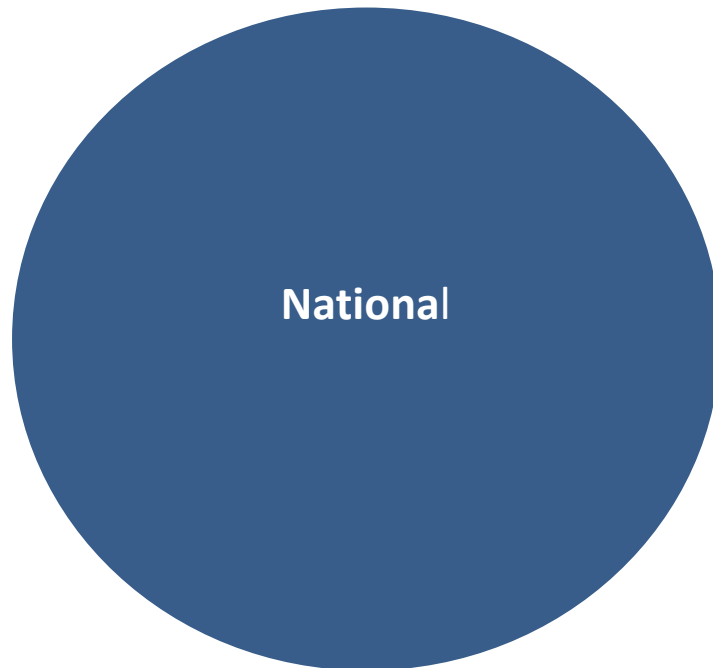


- Sector level is traditionally measured by the capacity to grow ( growth in productivity, size, share of market, range of products)
- Sector Competitiveness is relative to the same sectors in different geographical locations or similar sectors.
- Competition is a function of the business environment and levels of skills, resources in that business environment.



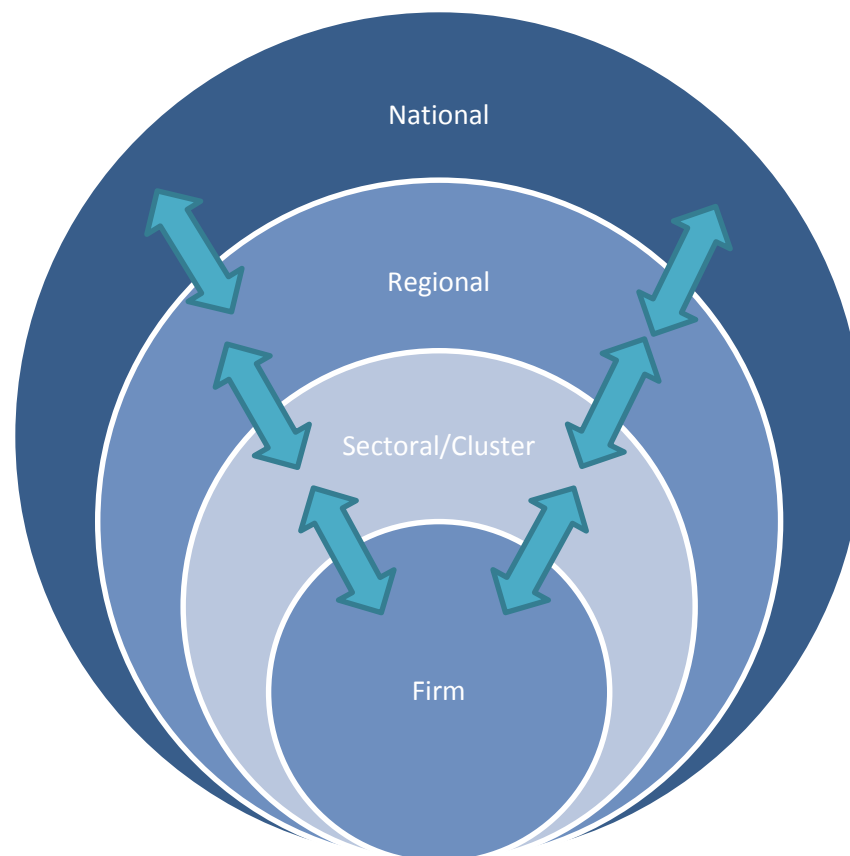


# National Level Competitiveness



- “The degree to which a country can , under free and fair market conditions, produce goods and services to meet the test of international markets, whilst simultaneously maintaining, and expanding the real incomes of the people over the longer term.” OECD (1992)
- “The set of institutions, policies and factors that determine the level of productivity of a country “ WEF (2014)
- “A measure of the levers that a country has to promote sustained improvements in its well being, given global competition” Sachs (2000).
- The success of individual companies and sectors can be a source of national competitive, along side factors of comparative advantage









# 1. Firm Level Drivers of Competitiveness

Resource Based View of the Firm & Dynamic Capabilities

Relational View of Competitiveness

Clusters and Innovation

Market Based Approaches

Institutional Support and Competitiveness



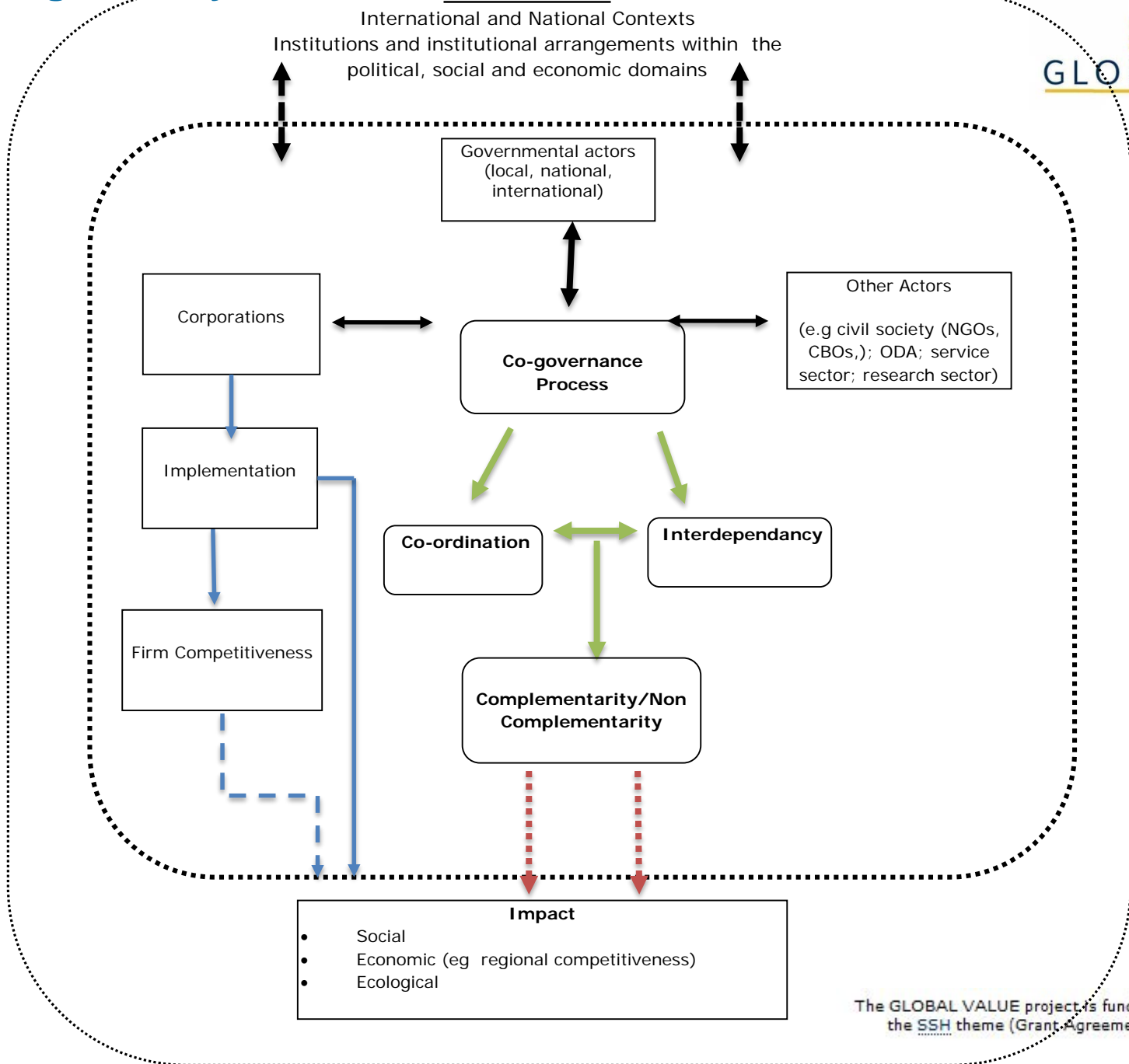


## 2. Drivers of National Competitiveness (WEF 2014)

- Institutions beyond government **SD SOG**
- Infrastructure **SD**
- Macro-economic environment and stability
- Health and primary education **SD**
- Higher education training **SD**
- Goods and market efficiency **SOG**
- Labour market efficiency **SD SOG**
- Financial market development **SOG**
- Technology Readiness **SD**
- Market Size
- Business Sophistication **SD**
- Innovation **SD**
  
- **Potential Economic/Competitiveness pathways of Impact from MNC Sustainable Development activities**
- **Potential implications of effective SoGs at the national level.**



# Figure 1: System of Governance



**GLOBAL VALUE**



# Figure 1: System of Governance: Competitiveness and Complementarity

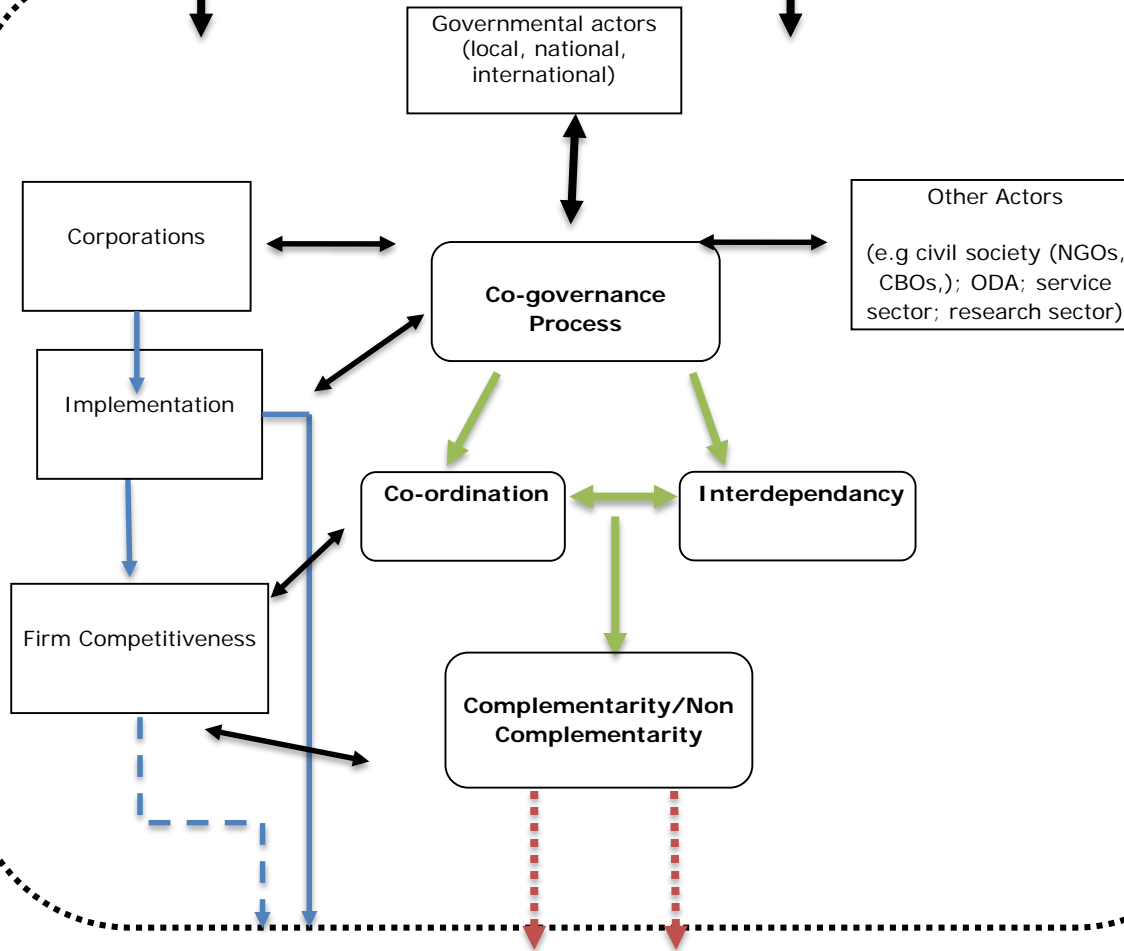


GLOBAL VALUE

## Structural Level

International and National Contexts

Institutions and institutional arrangements within the political, social and economic domains



## Impact

- Social
- Economic (eg regional competitiveness)
- Ecological





# Thank You for Listening!

- Any questions or comments gratefully received ...
  - What do you see as the barriers to Complementarity?
  - What factors do you see as driving cooperation and interdependency?
  - What connections do you see currently between MNC competitiveness and Sustainable Development activities?

