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Natural resources, multinational enterprises and sustainable development¹

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ABSTRACT

The natural resources sectors have not been prominent in the recent international business (IB) or management literature. We argue that the natural resources sectors, if not unique, are certainly characterized by a set of features that make them different, and raise issues that are central to international business. We identify two broad areas: the theory of FDI and the MNE, and the link between MNEs and sustainable development. We survey the relevant literature, much of it from outside IB, and identify a rich menu of research opportunities for IB scholars, many of which are addressed in the papers in this Special Issue.

I live in a silver mine and I call it beggar's tomb

(Grateful Dead, Uncle John's Band)²

1. Introduction

The natural resource sectors continue to be critical components of the global economy, notably in the developing world where many countries rely on the extractive sectors for a considerable portion of their GDP (Hailu & Kipgen, 2017; ICMM, 2014; McKinsey Global Institute, 2013).³ According to the World Bank,⁴ some 3.5 billion people live in countries rich in oil, gas, or minerals and most of the output in these sectors is produced by foreign multinationals (McKinsey Global Institute, 2013). Extractive sector resources play a prominent role in the economies of 81 countries, which collectively account for a quarter of world GDP, up from 58 countries and 18 percent of GDP in 1995 (McKinsey Global Institute, 2013). In 20 mainly low- and middle-income countries the extractive sector accounts for at least 20 percent of exports and government revenues (Halland, Lokanc, Nair, & Kannan, 2015). The recently published Extractive Development Index (EDI-Fig. 1) (Hailu & Kipgen, 2017), indicates that all of the most extractive dependent countries in the world are developing economies. Some 69% of the population of these countries lives in poverty (McKinsey Global Institute, 2013). It is acknowledged that resource wealth does not automatically translate into national wealth; rather it is often the case that resources are sources of conflict and environmental damage, are sometimes associated with high levels of poverty and corruption, and resource rich countries are often characterized by weak institutions and weak governance structures (UNCTAD, 2007). In short, there is considerable debate over the role of extractive firms in promoting well-being and sustainable development.

Given its importance, it is not surprising that a considerable amount of academic attention has been paid to the extractive sector, and given the strong political and policy issues associated with these industries, it is also not surprising that much research related to the sector has been in the domain of political science, development studies and economics. Thus, the issues that extractives raise and the developmental challenges the sector poses have been approached from a wide range of perspectives, including the impact of resources on community development (Aragón & Rud, 2013; Barney, 2009; Horowitz, 2011); the links between national economic resource dependence, and developmental progress and growth (Asiedu & Lien, 2011; Dadush, 2015; Sachs & Warner, 2001; Ticci & Escobal, 2015; Ville & Wicken, 2012; van der Ploeg, 2011; Chuhan-Pole, Dabalén, Kotsadam, Sanoh & Tolonen, 2015; Chuhan-Pole, Dabalén, Land et al., 2015; Venables, 2016); and the links between resources, governance and conflict (Berman, Couttenier, Rohner, & Thoenig, 2017; Collier & Hoeffner, 2004; Robinson, Torvik, & Verdier, 2006; Banks, 2008; Stevens, Kooroshy, Lahn, & Lee, 2013).

However, extractives and natural resources play a limited role in the current mainstream international business literature even though the

¹ We are indebted to Mike Peng, who in his role as the Supervising Editor provided valuable input and support throughout the process of creating this Special Issue. We also thank Jonathan Doh, Rajneesh Narula and Eric Werker for helpful comments.

² Lyrics by Jerry Garcia and Robert Hunter.

³ In the call for papers for this Special Issue, we defined the extractive and natural resource sectors to include firms grouped in Code 11 (agriculture, forestry, fishing and hunting) and Code 21 (mining, quarrying, and oil and gas extraction) of the North American Industry Classification System (NAICS). However, for the purposes of discussion, we focus primarily on the extractive sector: mining, oil and gas where the vast majority of FDI occurs (UNCTAD, 2007). In fact all submitted papers but one were in the extractive sector, so defined.

⁴ <http://www.worldbank.org/en/topic/extractiveindustries/overview#1>, Accessed June 17, 2017.

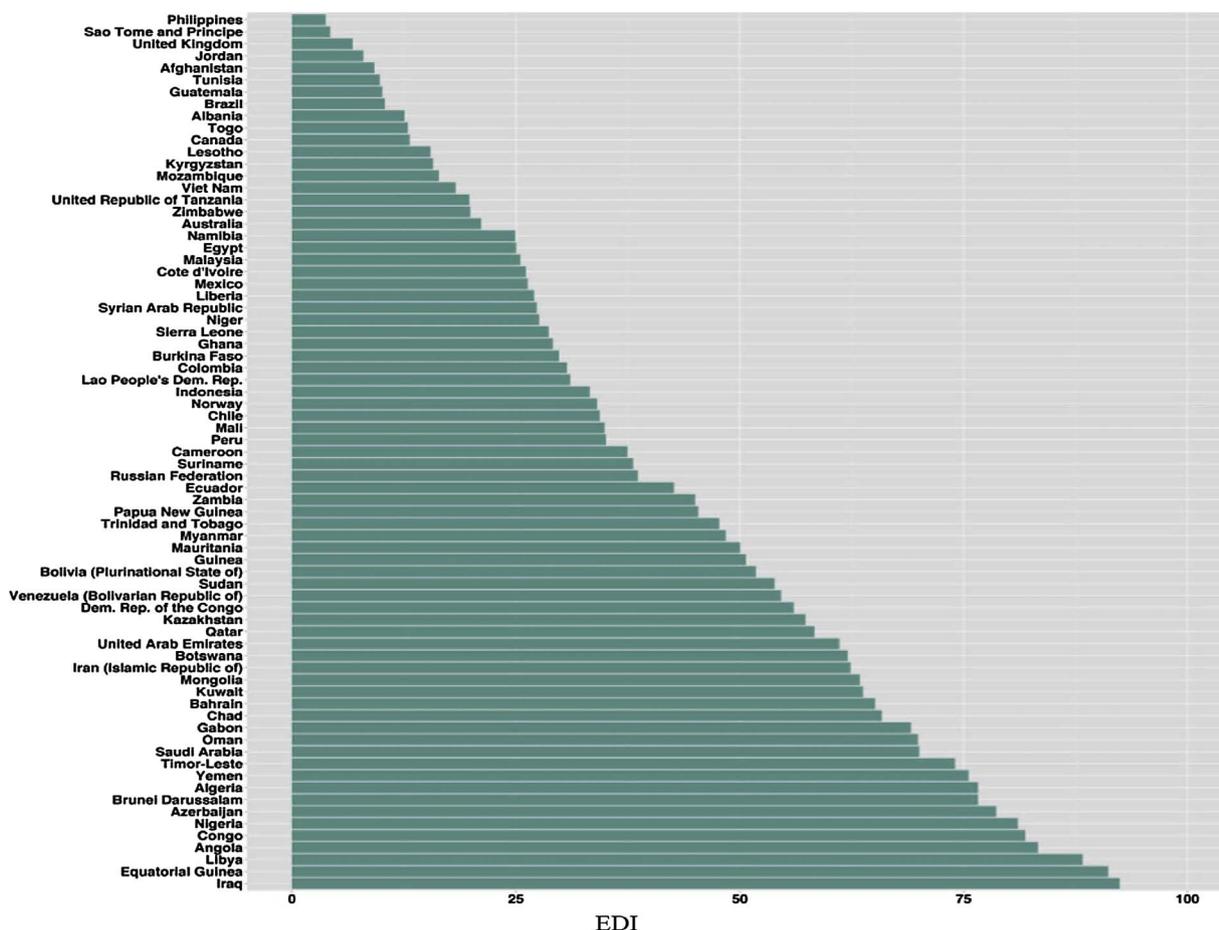


Fig. 1. Extractive Industries Dependence Index (EDI)*.

*The EDI is a composite index made up of three indicators: 1) the share of export earnings from extractives in total export earnings; 2) the share of revenue from extractives in total fiscal revenue; and 3) the extractive industry value added in GDP.

Source: Hailu and Kipgen (2017).

earliest literature on MNEs was often driven by the experience of natural resource-based firms (Rugman & McIlveen, 1985; Vernon, 1971). A search of original research articles published in four leading international business journals over the period 2000–2015 (836 in *Journal of International Business Studies*, 609 in *Journal of World Business*, 320 in *Management International Review* and 739 in *International Business Review*) reveals that less than 1% of articles focused on the extractives and natural resource sectors. A further search of major academic databases⁵ using the terms “extractives”, “multinationals”, “sustainability” and combinations of them produced more than 200 articles. Of these, only 15 were in international business journals, fewer were in top tier management journals, and the vast majority were published in journals outside business and management. Kraemer and van Tulder (2009) suggest that the relative absence of research on extractives stems from the fact that most Western extractive firms internationalized long ago, making them more interesting to economic historians than contemporary management researchers. We argue, however, that the extractive and natural resource sectors raise issues that remain central to international business, which we identify as the theory of FDI and the MNE, and the link between MNEs and sustainable development.

In this introduction to the Special Issue, we proceed as follows. We first more carefully define the extractive sector and the features that define it. We then ask whether or how these specific features can be accommodated within the theory of FDI, which for present purposes we take to be the eclectic paradigm (Dunning, 2000), and the current approaches to sustainability strategies of firms, which for present purposes we summarize through the ESG (environment, social, governance) framework (IFC, 2012). Our conclusions are summarized within a framework that encompasses both the theory of FDI and the ESG elements of sustainability. Our analysis is based on a survey of existing literature, largely from outside of international business and management, and we use that survey to identify gaps in the literature that might guide future research in international business. Finally, we briefly summarize each paper in the SI, and relate it to the summary framework that we develop.

2. What is different about extractives?

There are several factors that differentiate the extractive sectors from the manufacturing and service sectors (Halland et al., 2015; Mikesell & Whitney, 1987; UNCTAD, 2007). First, the extractive industries can occupy an “outside space in the economies of many resource-rich countries” (Halland et al., 2015:1), and this can create unique challenges for firms and governments. For governments, this means that in some cases resource royalty revenues are large and critical, and for MNEs it means that relations with the host government are a critical success factor. Among other things, government policies with respect to royalties or regulation can significantly affect the evolution of the industry in any given country

⁵ The search included Business Source Complete, AIB/Inform, Econlit, Jstor, Sustainable Organization Library and Google Scholar.

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