

# **John Dunning's writings on development: gradualism, agency and meaning\***

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Over his long and productive life, John Dunning wrote a great deal. One of the primary concerns of his work was development. His work with the United Nations Conference on Trade and Development (UNCTAD) over the years from 1972 and the establishment of the United Nations "Eminent Persons Group" (Sagafi-Nejad and Dunning, 2008; Buckley, 2010) to his death in 2009 focused particularly on the role of transnational corporations (TNCs) in the development process.

This review concentrates on John Dunning's last writings on the subject of TNCs and development – most notably on his chapter entitled "Towards a new paradigm for development: implications for the determinants of international business activity" in his final book (Dunning, 2010: chapter 7).

## **The implicit development context of John Dunning's work**

John Dunning's view on development was essentially gradualist. He saw development as a process of evolution. There is no real sense of conflict or threat in this process. Emerging economies are accommodated within the global system as they emerge and the potentially disruptive effects of this are either absorbed internally (perhaps through evolving institutions) or are smoothed out by processes between nations – rebalancing of economies, exchange rate realignments, multilateral agreement). Development therefore is a self-adjusting system in which growth, emergence (and decline) are assimilated in the global economic system fairly smoothly.<sup>1</sup>

Dunning also believed that thought, too, is an evolutionary system. Borrowing key ideas and synthesizing them into a greater whole was a key

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<sup>1</sup> For a summary of John Dunning's work on TNCs and development, see Dunning and Lundan (2008) particularly chapter 10.

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method of Dunning's last foray into development processes (Dunning, 2010, Chapter 7). He was explicitly "standing on the shoulders of giants" and the giants he chooses are Amartya Sen, Joseph Stiglitz and Douglass North, all Nobel Prize winners.

## **Criticisms of the "Old Development Paradigm"**

In order to advance the new approach to development based on the fundamentals derived from his earlier work together with the new elements from the "giants", Dunning set up something of a straw man – the "old development paradigm" (ODP). According to him, the "key propositions of the old development paradigm (ODP) were based on the premise that, as a group, the goals and characterises of the developing countries were fundamentally similar to those of developed countries except that the former were in an earlier stage of their development process" (Dunning, 2010: 149). This mindset was described by Dunning as "narrow", "linear", "utilitarian" (it concentrates on gross national product as the sole measure of welfare) and "static". It has a static economic approach that ignored the extent and quality of institutional infrastructure and social capital.

In the text, very few names are actually associated with ODP and those that are named are clearly using reductionist type modelling to convey some key essences of development – such as the need for the accumulation of critical amounts of capital to launch development from a stationary state. On the whole the "ODP" is an unfair characterization of development economists' views (even those around 1970) and serves merely as a backdrop for the New Development Paradigm (NDP), which Dunning was to announce later.

## **Two assertions – globalization driven development**

Dunning proceeded to set up the New Development Paradigm (NDP) by making two assertions connected to "globalization and technological advances" (Dunning, 2010: 152). Political changes (the fall of the Berlin Wall, etc.) and dramatic advances in the ability to transfer "information, knowledge and learning" rapidly across great distances were "refashioning the content and form of the production and exchange activities of firms" (Dunning, 2010:153).

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This led to two assertions. First, contemporary capitalism interconnects different behavioural mores and belief systems (because of increased cross border exchange of knowledge, ideas and information). Second, changes in incentive structures and the belief systems that underlay them rarely move in tandem with technical, economic or political change.

This looks, at first blush, to be a recipe for disorder and disruption. That may be a reasonable deduction (and it is to this author) but not to John Dunning, who sees order, and development, emerging from these major forces.

### ***The New Development Paradigm***

John Dunning utilized the work of Sen (1999), Stiglitz (1998, 2002) and North (1990, 1994, 2005) as elements in the NDP, fashioning a new synthesis from their contributions to development.

Dunning's take on Sen was that of a "value based approach to development". The key issue derived from Sen was the removal of "unfreedoms". The enhancement of "the more positive freedoms of choice, opportunity and personal capability" (Dunning, 2010:156 from Sen, 1999) makes substantive freedom a means, as well as an end to development. Dunning noted that Sen also paid attention to the upgrading of institutions.

From Stiglitz (Stiglitz, 1998; Yusuf and Stiglitz, 2001), Dunning took the idea that development is primarily concerned with the "economic and structural transformation of resources, capabilities and preferences of societies; and that of the mindsets, values and entrepreneurship of its individual and organizational stakeholders" (Dunning, 2010: 157). Stiglitz emphasizes the dynamic interface between the institutional instruments of international organizations and the structural upgrading of nations. Stiglitz's approach is much more interventionist, even relying on outside interventions to secure a trajectory towards development. There is much more cognizance of partnerships, social capital, learning and an emphasis on the role of civil society.

Douglass North pays much more attention to institutions, particularly to incentive structures and enforcement systems in the development process. Institutions as "the rules of the game" govern

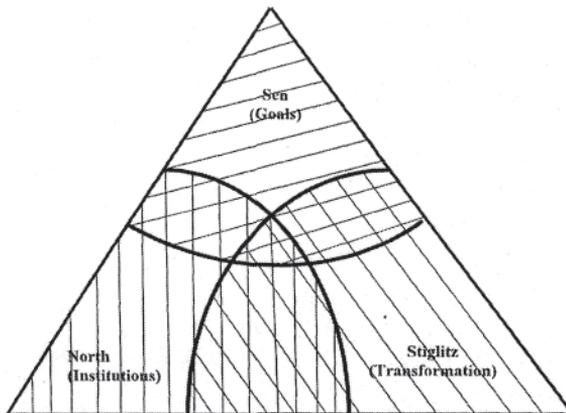
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the way that human beings structure their interactions. The balance between transaction costs and production costs will determine where activities take place and how this optimum location changes over time. Dunning alluded to some of the empirical evidence that the quality of a nation's institutions (and social capital) was one of the critical factors that distinguish faster growers from slower ones.

These views might have seemed to be discordant or subject to different domains of reference, but not for John Dunning. He simply placed each of these views as the corners of a triangle and produces figure 1 where goals (Sen), transformation (Stiglitz) and institutions (North) represented the domains of each "force". Thus, the triple-hatched centre of the triangle represents a development nirvana where positive institutions, reacting with supportive goals (linked to incentives) and transformational change occurs. Good, but less good, are areas where only two positive effects react together and the corners represent little that is positive towards development.

Dunning suggested that institutionally related variables were a necessary adjunct to the eclectic paradigm. Locational (L) factors can easily incorporate this as the quality of institutions in individual countries are a major determinant of their attractiveness and sustainability as an investment location. Internalization factors (I) in fact already incorporate an institutional element – firm versus market – but

**Figure 1. The Sen/Stiglitz/North (overlapping) perspectives on the NDP**



Source: John Dunning (2010:155).

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Dunning (never really at ease with internalization theory) unnecessarily complicated this by introducing “institutionally related competitive advantages”. Unfortunately, the eclectic theory expounded in figure 1 is extremely complicated with three types of ownership advantages, and location and internalization factors having a subset related to institutions. Dunning also introduced R, C, M – resources, capabilities and market opportunities into the NDP and the taxonomy sinks under its own weight.

Better perhaps to return to some earlier writing of Dunning’s where investment was clearly related to (net) foreign investment: the investment development path.

## **The Investment Development Path**

It is perhaps surprising that Dunning’s (2010) earliest reference to his own work in chapter 7 is to 1993. No reference at all is made to the Investment Development Path (IDP) which he pioneered from the 1970s and 1980s (Dunning 1981a, 1981b).<sup>2</sup>

In the IDP (originally the investment development cycle), Dunning and collaborators attempted to plot the relationship between net inward/outward foreign direct investment (FDI) and development (proxied by income levels). Early stages of this relationship show a negative position as the country is host to incoming FDI. Then outward investment begins and at some point. As national income grows, outward FDI exceeds inward and the country becomes a net exporter of FDI. These basic relationships do not show causality but are suggestive of underlying relationships. Better, perhaps, to have separate plots of inward FDI versus income and outward FDI versus income, but it is at least possible and worthy of investigation that net flows have an important meaning. Further, the relationship between inward and outward flows is worthy of investigation – do inward flows through linkages, spillovers, income and demonstration effects stimulate outward FDI? Is this true in all circumstances and in all industries? What are the policy implications of these presumed relationships?

These issues seem to have been abandoned by Dunning. The IDP is certainly worthy of criticism for its lack of causality, but meaning can

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<sup>2</sup> See also footnote 1 in Buckley and Castro (1998).

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certainly be induced into the conceptual structure by a judicious input of extra-IDP theory. I am unclear as to why this strand of theorizing, to which Dunning had contributed so much, received no mention in this final work. After all, IDP has the semblance of dynamics, it clearly relates FDI to income levels and it is potentially suggestive of policy prescriptions. It is also far more transparent than the constantly augmented three factor eclectic paradigm.

### ***Institutions or culture?***

Although John Dunning mentioned it, the piece on development by Buckley and Casson (1991) was not analysed in Dunning's chapter. Perhaps the difference in approach is illuminating. An emphasis on institutions suggest that the agency of individuals or groups can *change* incentives or institutions. They can "design in" development. An emphasis on culture is, however, to suggest that the situation is more difficult to change, more rigid and constraining to development. Culture, moreover, may be more resistant to change from external agencies (à la Stiglitz). Whereas institutions can be redesigned, even from *de novo* in principle, culture is often particularly resistant to external pressure. The creation of a culture of entrepreneurship may be much more problematic than creating institutions that foster entrepreneurship. If the domestic culture is inimical to entrepreneurship, will institutions designed to foster it be effective?

### **FDI and development**

One of the major agents of development has long been held to be FDI under the agency of the TNC. It is clear that the TNC has changed over time, becoming much more locationally flexible and also increasingly utilizing non-equity modes of operation and externalizing many "non-core" activities through outsourcing and subcontracting (Buckley, 2007, 2009; Buckley and Ghauri, 2004). This is analysed in detail by Lundan and Mirza (2010). These organizational and locational changes are bound to have important implications for development, opening up new opportunities (subcontracting by SMEs in developing countries, for example) and potentially closing down avenues of growth (competitor firms finding it difficult to compete with globally integrated networks centred around TNCs).

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John Dunning met this challenge by a fairly continual updating and redefinition of the elements in the OLI paradigm. His final contribution (2010) was no different – section 6 of chapter 7 is entitled “The determinants of international business: revising and extending the OLI paradigm”. Sadly, the paradigm became unwieldy. Better, perhaps, to go back to the founding concepts of the paradigm and apply these analytically to the new world order.

Dunning’s concentration on the role of technology was, however, apposite – the role of “created assets” has become crucial to the growth and profitability of TNCs. Indeed, extracting a return from intangible assets may be a good description of the role of modern TNCs. This, of course, has important development implications. TNCs need to create and exploit intangible assets (including brands) whilst protecting these assets from dissipation, copying and imitation. This, together with the ability to manage a complex globally integrated network, utilizing a plethora of modalities of operation, defines the modern TNC.

In a scenario where whole swathes of global activity are dominated by “global factories” (Buckley, 2007, 2009; Buckley and Ghauri, 2004), it is important to give attention to the incentives, policies and institutions that can foster development. Is it best (or under what circumstances is it best) for developing country firms to cooperate with global factories (as subcontractors, for example)? Alternatively, can developing countries build globally integrated networks centred on their own TNCs?

John Dunning had a clear philosophy of development that gradual changes, adapted through flexible institutions enabled both developing and developed nations to accommodate potentially disruptive, radical change. The key transmission agent of change was the TNC which itself needed to adapt its procedures, outlook and management. In the book he edited, *Making Globalisation Good* (Dunning, 2003), he laid out the underlying ethos that he felt would lead TNCs to have beneficial (moral as well as economic) effects on development. It is now for subsequent research to explore the meaning of “institutions” and “culture” in the development context. These are the crucial issues in international business and development in the near future. John Dunning’s work laid a great deal of the groundwork for the future development of theory, practice and policy in this crucial area.

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Perhaps now the time is right to build on Dunning's challenge to "make globalization good". A direct link to the strategies of TNCs could be made, were the Millennium Development Goals (MDGs) to be built directly into the decision-making core of TNCs. This could best be achieved by rewarding the top executives of TNCs, not only by reference to quarterly returns, but also by the contribution that their activity makes to the MDGs in the countries where they have significant operations. It can, of course, be argued that this presents measurement difficulties. It does, but this can be gradually refined and improved if there is a will to work on it. It might also be argued that including MDGs in reward packages leads to "goal confusion". But top executives of TNCs are used to making trade-offs – between profitability and market share, for instance. The inclusion of a proposal to include MDGs in the decision set of TNCs in the declaration following the World Investment Forum organized by UNCTAD in Xiamen (September 2010) is a first step (reference) but to move forward on this policy would be a fitting tribute to the development research tradition pioneered by John Dunning.

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