Introduction

Business, Company

Introduction The constantly emerging FDI behaviour of MNE represents the new development mode in the global economy. Whether the institutional factors have a significant impact on MNEs' governance remains to be discussed. With the large FDI behaviours, vast majority of capital, resources as well as labour circulate between developing countries and developed countries. On one side, developing countries try to set up preferential policies to attract inward FDI; On the other side, developed countries would like to invest outside countries to expand the market and achieve economies of scale. However, FDI also has some issues from the perspective of institutional theory. These problems push MNEs to revise their governance to further advance their growth. In this study, the author will first evaluate the Dunning's eclectic theory, that is called OLI paradigm. The second part is the critical analysis of the impact of the institutional theory on the MNEs' governance and the global regulatory environment. Finally the author will critically evaluate the MNEs governance and strategic behaviour. 1. 0 The brief evaluation of selected FDI theory------Dunning's eclectic theory (OLI paradigm) Dunning's eclectic theory absorbed Hymer's theory about the ownership endowment advantages. It can not only explain the different types of direct investment behaviour and other international operation mode, but also the geographical distribution of enterprise and M&A behaviour in MNEs. It also analyse three main productive incentives: Market-based theory, Resource-based theory and Efficiency-based theory. However, these three advantages are not appropriate to be divided under some circumstances, because the ownership is sometimes connected and determined by the location. Considering the MNEs' advantages in OLI paradigm, the ownership advantages may arise from product differentiation, marketing skills and production secrets etc; As to location, MNEs can gain access to raw materials and low labour costs; In order to reduce transaction costs and the transfer of human resources, internalization is a better way for some MNEs to maximize their internal advantages (Mark Cook, 2012). 2. 0 The critical analysis of the impact of the institutional theory on the MNEs' governance and the global regulatory environment When applying the institutional factors to the OLI paradigm, the ownership is relevant to governance and regulation; the location may be linked to social capital; and the internalization could be other relevant factors. The reason why institutional factors can affect countries attracting FDI could be two considerations. First, foreign investors can be attracted by the good regulatory infrastructure by improving productivity. Second, weak institutions will always bring extra costs to FDI, that is defined as corruption. Third, there is rarely no possibility for FDI to undertake any vulnerable uncertainty, like the prevention and changeover of weak governments and the weak power of property authority and legal system(AgnÃ¨s, Bénassy-Quéré , Maylis, Coupet & Thierry Mayer, 2007). Therefore, institutional factors are essential to the growth of MNEs. 2. 1 Inward FDI in host countries and pull factors It seems that the majority countries attracting inward FDI are developing countries, because they consider FDI as the most stable constituent part of capital flows (AgnÃ¨s, Bénassy-Quéré , Maylis, Coupet & Thierry Mayer, 2007). As host countries, whether they can attract FDI depends on the efficiency of the pull factors. Risk factors, including bureaucratic red tape, political uncertainty, corruption and weak legal system, always has a negative effect on inward FDI. Undoubtedly, perfect legal structure is beneficial for host countries to attract foreign investors. Unpredictable legitimacy and policies, government uncertainty as well as lack of social responsibilities are all deterring inward FDI. Furthermore, a good capability of institutional government can attract inward FDI, and poor institutions may play a role of tax through the approach of increasing the costs of business. What should be highly concentrated is corruption, a phenomenon that is more likely to emerge in some countries. As it is showed in literatures, corruption could restrain the foreign investment by adding management costs because investors need to bribe officials to obtain the license or franchise. What is more, there is always some uncertainties in corruption, and that may also suppress the inward FDI (Christian Daude& Ernesto Stein, 2007). Being aware of these pull factors that could have an effect on the foreign investors, MNEs begin to think about constructing an efficient process of governance in host countries (Majid Abdi&Preet S Aulakh, 2012). It is critical that MNEs need to make their regulations adapt to the different institutional factors in different countries. In this field, corporate culture become an apparent factor that affect the decision made by the foreign investors. It was found that MNEs from Anglo-American home countries represented less cultural diversity in organizational framework, while other MNEs from Japan and Sweden provided more variation in structure. This implied that MNEs need undertake some characteristics of institutions in host countries in order to survive (Guven Alpay, Muzaffer Bodur, Hakan Ener1& Cem Talug, 2005). The differentiation of business culture absorbed by MNEs dues to the cultural compatibility, which is also considered by the directors of MNEs for their further development. 2. 2 Outward FDI in home countries and push factors In order to globalize the market, more and more local firms in home countries invest in foreign countries to achieve the economics of scale or to use the particular advantages in host countries. For some MNEs, the reason why they invest in other countries is just escaping from weak home institutions. The quality of host countries’ institutions has positive effects on source countries' outward FDI stocks (Anil Mishra & Kevin Daly, 2007). During the process of choosing a host country, the location choice, including wage, infrastructure and potential risk , act as the prime factor to the directors of MNEs. The countries having the abundant resources and geographical advantages are the prior choice for MNEs to select. After the decision of location, the push factors to MNEs may be those particular advantages in host countries. For example, China have attracted a lot FDI since it carried out the " open-door policy"(Julan Du, Yi Lu&Zhigang Tao, 2008). Chinese cheap labour attracts lots of MNEs to invest in China so that they can reduce production costs and improve efficiency. Whereas, if MNEs see labour from a perspective of educational factor, Chinese labour is mostly attracted by manufactural MNEs. Those corporate that need high-educated labour forces will invest in other countries like UK. In recent years, the emergence of outward FDI in developing and transitional economics showed that FDI is becoming more globalized. As the governments in home countries, what they should do is to promote capital going abroad on the basis of maintaining the stable development in home countries. At the same time, they need revise their regulatory framework to shorten the institutional gap between host countries and them. Some researchers found that the transfer of enterprise governance structure in home countries increased the corporate value in the host countries where firms value is poor (Bongjin Kim, John E. Prescott&Sung Min Kim, 2005). That fact made the interconnection between pull and push factors necessary to be critically understood. 2. 3 The critical understanding of the connection between pull factors and push factors Under most circumstances, the pull factors attracting inward FDI from home countries are exactly the push factors encouraging outward FDI flowing to host countries. That phenomenon suggests that home and host countries have the complementarity in some institutional level. If the pull factors in host countries have no influence on home economy, that institutional factors might have convergence with those in the home economy, thus will not attract inward FDI. 3. 0 The critical evaluation of MNEs governance and strategic behaviour It is showed that countries with better institutional governance are more likely to attract FDI flows (Steven Globerman& Daniel Shapiro2003). Similarly, good governance has a positive effect both on inward and outward FDI. On the board-level of MNEs, the decisions made by directors are associated with the shareholders of MNEs. As for international MNEs , it is essential to differentiate the governance framework to be an excellent MNE as a whole. The researchers find that the responses of foreign subsidiaries are able to increase the governance flexibility in order to administrate the global market. The changing external environment seems to confuse the governance of internal subsidiaries on the surface. However, the distinctions between the external environment and internal subsidiaries stimulate subsidiaries managers to seek a particular strategy different from that in other subsidiaries. MNEs are turning to use transnational strategy, which combines the high internal efficiency and global market strength, local sensitivity and divergence, and innovation and expansion in world (Bongjin Kim, John E. Prescott&Sung Min Kim, 2005). In addition, the transparency of corporate governance strategy is also a critical element in MNEs accountability and is close related to the corporate growth, because that factor influences whether the investors, shareholders and other stakeholders could be accessible to the policies (Yadong Luo, 2005). Conclusion In conclusion, institutional factors are proved to have a significant impact on MNEs governance through the critical evaluation. The external factors affecting MNEs governance could be political situation, legal system and business culture; The internal factors may be ownership structure and board. Bilateral FDI tends to be reduced by institutional distance (AgnÃ¨s, Bénassy-Quéré , Maylis, Coupet & Thierry Mayer, 2007). Therefore, in the background of economic globalization, MNEs need to adapt to changes in external institutions. Subsidiaries need reform according to the institutional changes in host countries because political, economic and cultural factors in host countries can have a restricted influence on subsidiaries' governance structure. Meanwhile, it is essential for MNEs to revise governance framework by improving the transparency in corporate accountability. By adjusting the governance strategy in time can MNEs advance their growth and further achieve the global development goal. References Agnes, Benassy-Q, Maylis, Coupet and Thierry, M (2007)Institutional Determinants of Foreign Direct Investment. 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