GOVERNANCE IN A TRANSNATIONAL ERA: STEPHEN J. KOBRIN AND THE POST-WESTPHALIAN REALITY AU :1

Ruth V. Aguilera

ABSTRACT

This chapter is a commentary on Kobrin's essay on the current transition to the transnational era where there is a shift in the balance of power from sovereign states to non-state stakeholders and what role the multinational corporation (MNC) plays in this transition. It celebrates Kobrin's long-established scholarship and discusses his recent thinking regarding the new reconceptualization of space, the fragmentation of political authority and the intermingling of public and private spheres, in the context of transnational governance. In his essay, Kobrin raises many interesting questions and opens new avenues for inter-disciplinary research on the MNC in the up-and-coming transnational era.

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INTRODUCTION

Professor Kobrin's work on global governance and country political risk lies at the intersection of international business, law and international relations. His research is deeply concerned with the institutional and political pressures that multinational managers perceive and deal with as they invest in different foreign countries (Kobrin, 1982). In this regard, Kobrin has done a great service to the International Business and Global Strategy fields by effectively co-opting the political science literature on political risk and governance and applying it to managerial perceptions of risk in multinational firms. Kobrin's (1979) essay on political risk assessment in foreign direct investment and organizational responses to environmental change is a classic in the international business research. His thinking about the tensions between global integration and cultural differences among markets offers an excellent road map to conceptualize multinational corporations (MNCs)' strategic dilemmas of integration and fragmentation of the global value chain (Kobrin, 1991). In the remainder of this commentary, I first summarize Kobrin's essay in this volume entitled 'The Transnational Transition and the Multinational Firm'. Then, I discuss two of his arguments that I believe are provocative and engage with broader debates regarding the role of MNCs in the twenty-first century: Transnational Governance and the Global Space.

Kobrin's essay on this issue takes yet another step in his well-established scholarship towards understanding the interplay of the local and the global in the context of the post-Westphalian world where there is no longer 'a fundamental distinction between domestic political spheres characterized by institutional density, hierarchical relationships, shared interests, and strong collective identities' (March & Olsen, 1998, p. 944), but a transition towards a new transnational political era. Kobrin identifies three key transformations in this emerging transnational era: (1) a reconceptualization of geographic space; (2) the emergence of new political actors in international politics, diluting conventional political authority and (3) the co-evolution and blurred boundaries between public and private spheres. These three factors shape the international to transnational transition according to Kobrin. This is an emerging space where MNCs are expected to navigate convoluted waters dealing with geographic territories that go beyond national countries such as global production networks, cooperate with multiple actors such as NGOs and civic groups and engage in public–private partnerships such as transnational unions or standard-setting agencies.

THE GLOBAL SPACE

An interesting point raised in Kobrin's essay is that distance and position in the structure of the international production function can no longer be defined merely in geographical terms but must also be understood in the context of global production networks that are increasingly fluid thanks to digitalization and technological advances. In this network space, the organization and distance of the different units in the MNC need to be examined in the context of their position in the global network which is consistent with important recent research pushing the idea of cross-national distance beyond geographical distance. For example, Ghemawat (2001) proposes four dimensions of distance in his CAGE model, *c*ultural distance, *a*dministrative distance, *g*eographic distance and *e*conomic distance, which fits very well in a network MNC mindset.

At a more dynamic level, Berry, Guillen, and Zhou (2010) have constructed a data set that includes cross-national and longitudinal data for nine distance dimensions (including economic, financial, political, administrative, cultural, demographic, knowledge, global connectedness and geographic distance). Their multidimensional notion of distance and Kobrin's discussion on global production networks complement each other nicely. Future research should incorporate both of these constructs as independent variables or controlling factors. A main challenge in examining cross-national distance is that it tends to neglect the interdependent position of the multiple MNC subsidiaries or the position of the different units of the production value chain in the global network. In this regard, Nachum and Song (forthcoming) conceptualize the MNC as a portfolio of interdependent subunits and examine the subsidiary location moves relative to the overall global MNC network. This study nicely details the perhaps overlooked dimensions of path dependency noted by Kobrin – even though firms have choices on where to locate, this decision will be contingent on existing MNC subsidiary locations.

In discussing the reconceptualization of the global space, Kobrin touches briefly on the much debated topic of semi-globalization – or regionalization, where trade and investments occur mostly among a few regions. He links semi-globalization to his continuous emphasis that we are in the 'very early stages of the transnational transition'. I suspect because he recognizes that the world is far from flat. Semi-globalization is an increasingly discussed topic, particularly as countries become regionally integrated and the division between developed and developing countries grows sharper.

Research on the internationalization of MNCs has focused on firm-level characteristics and country-level subsidiary effects (Flores & Aguilera, 2007; Rugman & Verbeke, 2001). Recent research demonstrates that MNCs make international strategic choices contingent on regional affiliation (Arregle, Beamish, & Hebert, 2009) and coordinate their investments in a region as they need to expand across a region to maintain local responsiveness and exploit region-bound firm-specific advantages (Rugman & Verbeke, 2004). The semi-globalization approach highlights the geopolitical importance of regions in MNCs' international strategy due to their incomplete cross-border integration at different levels creating neither extreme geographical fragmentation nor a single homogenous market place (Ghemawat, 2003). Thus, future MNC research will have to pay closer attention not only to host countries but also to the overlapping regions (cultural, trade, socio-political etc.) in which these countries are integrated into (see Aguilera, Flores, & Vaaler, 2007; Vaaler, Aguilera, & Flores, 2007, for a discussion of regional groupings).

TRANSNATIONAL GOVERNANCE AND NEW GOVERNANCE REGULATION

Two of the tenants of Kobrin's transnational transition, 'the emergence of non-state actors with significant political power' and the 'blurring of public and private spheres', speak directly to extant research on transnational governance and new regulation. It is important to note that he does not refer to globalization (which has a larger connotation of harmonization across boundaries), but rather suggests that nation-states continue to be present, yet they need to be considered as one type of political actor amongst others (Cerny, 2006; Katzenstein, Keohane, & Krasner, 1999). I discuss each of these in turn.

With the waning of the United States as a political authority, MNCs are exposed to a more fragmented regulatory environment. International economists (Kindleberger, 1973) and social scientists (Gilpin, 1981) attribute the occurrence of cooperation and integration between countries in the world economy to the presence of a *hegemon*. Cooperation in the international sphere has resulted in the willingness of a powerful sovereign state to maintain, monitor and enforce rules governing interstate cooperation either through the use of coercion or by assuming some of the costs of leadership. The cases of pre-World War I and Bretton Woods constitute two instances of interstate cooperation based on the presence of a hegemonic power (Kindleberger, 1987). Therefore, the relative economic decline of the United States (at least in terms of foreign direct investment), and the emergence of new centres of power often based around non-state actors, has been interpreted as a negative development bringing about the demise of integration and cooperation at the international level (Grieco, Powell, & Snidal, 1993).

The insights of the works of Kobrin on transnational governance highlight how cooperation and integration can take place in the international economy despite the absence of a hegemon – and the rise of many loci of authority and power. International institutions of transnational governance can act as an inducement for integration and cooperation since they decrease transaction costs and reduce uncertainties, thereby limiting the negative consequences of asymmetrical information (Keohane, 2005; Ruggie, 1982). Cooperation in a context of diffused power can take place not because of the constraining nature of international institutions as they are often informal and/or place significant amounts of discretion in the hands of individual actors, but because they internalize the motivation. In addition, current international cooperation does not require altruism, harmony of interests or changes in values of participants. International institutions, whether formal or informal, serve as focal points that release information about the behavior of participants – thereby contributing to the reduction of uncertainty and the promotion of credibility of commitments (Keohane & Martin, 1995; Krasner, 1982). The relative economic decline of the United States does not entail the demise of cooperation and integration; institutional arrangements of transnational governance enable participants to adjust and interact in a power-diffused context characterized by the presence of multiple centres of authority.

Djelic and Sahlin-Andersson (2006) offer a terrific discussion of the complex and dynamic topography of transnational governance in the making. They define transnational governance as ‘a complex compound of activities bridging the global and the local and taking place at the same time within, between and across national boundaries’ (Djelic & Sahlin-Andersson, 2006, p. 3). In some global industries such as forestry, MNCs are the instigators of regulation (Cashore, Auld, & Newsom, 2004; Cutler, Haufler, & Porter, 1999), while in other cases such as social movements or NGOs private standard-setting initiatives are the ones putting pressure on MNCs to adopt certain practices (Brunsson & Jacobsson, 2000; Schneiberg & Bartley, 2008; Tamm Hallström & Boström, 2010). The key is that transnational governance involves a wide range of actors that redefine the modes of coordination, rule-making and rule-monitoring in a patchy and fragmented fashion because of the coexisting and often overlapping principles, codes and legal rules (Djelic & Quack, 2010). The main challenges in transnational governance as identified by Djelic and Quack (2010) are 'the competition between the different rule-systems or schemes' and the weakness of enforcement and sanctioning mechanisms.

Transnational governance triggers the coexistence of multiple actors and policy spaces, and inevitably a fragmentation in the global space, setting off institutional arbitrage and granting national institutional advantages of some countries over others. As argued by Scott (2010), the interdependence of individuals, firms, countries and transnational organizations – for instance, with the 2008 financial crises or the threat of climate change – presents supranational collective action problems which lead to an increased emphasis on global regulation. It is critical to further understand how this global regulation is developed, monitored and enforced. Typically, on the one hand, we would assume that there are norms and rules that get diffused from the national level to supranational organizations or intergovernmental organizations such as the European Commission. On the other hand, there are societal-based initiatives from NGOs, private firms and so on defining the regulatory space through non-governmental mechanisms such as standard setting or codes of conduct. Scott (2010), like Kobrin, maintains that the cleavage between intergovernmental and non-governmental regulation is becoming increasingly blurred and unimportant for three reasons: lack of coherence across countries in the adoption of global regulation, weaknesses in enforcement and concerns regarding normative effectiveness of non-governmental regimes and finally differential legitimation degrees of private and hybrid regimes vis-á-vis supranational governmental regimes. An important point of consensus in this debate is that sovereign national states no longer have exclusive rights over governance (Cerny, 2006).

In the transition to a transnational era, in addition to the political shift where state actors with centralized, top-down authority share their political space with non-state actors, these political actors are also crafting new forms of regulation, beyond traditional law – referred to as new regulation. There is a school of new regulation in legal studies examining this phenomenon in many different industrial sectors (Black, 2002, 2008; Haufler, 2001; Shamir, 2010). The shift to transnational governance at the national and international level has led to an explosion of rule setting and rule-monitoring activities (Djelic & Sahlin-Andersson, 2006; Levi-Faur, 2005). This new governance framework (formerly coined 'governance without government' because it replaced the government from the centre-state) refers to the fact that not only sovereign national states but also private actors and public–private stakeholders can set standards and policy initiatives in various industries. These then become expected and/or taken for granted. As stated by sociolegal scholar Shamir (2010), the mechanisms to regulate and ensure compliance with legal or quasi-legal arrangements switch from 'formal rules and stipulations, adversarial methods, enforceable means of dispute resolution, and command-and-control regulatory mechanisms' to 'nonadversarial dialogue and organizational learning, presumably leading to the development of principles, guidelines, best-performance standards and various soft law instruments' (p. 3). New governance regulation is a facet of the transnational era and directly engages MNCs in these stakeholder-oriented governance. For example, Koenig-Archibugi (2004) claims that the power and importance of MNCs have increased the process of economic integration and globalization and argues that the most effective mechanism to make MNCs accountable is through voluntary means that link the interests of the principals (i.e. shareholders) with those of the greater public. Rupp, Williams, and Aguilera (in press) develop a similar argument regarding the motivations of individuals and corporations to internalize different rules from a psychological lens and in the context of CSR. In sum, there is a turn towards a coexistence of formal means of authority or hard law (law, rules and regulations) with informal legitimate regulation (e.g. guidelines, principles, codes of conduct and standards) illustrating the transformative capacity of global capitalism.

CONCLUSION

Kobrin has put forth a great example of how to continually push the MNC agenda further by engaging in cross-disciplinary research and by asking relevant questions. First, it is critical that the different fields within international business engage in deeper across-field conversations (Aguilera, 2011; Cheng, Henisz, Roth, & Swaminathan, 2009). For instance, Reuer, Klijn, Van den Bosch, and Volberda (2011) discuss how research in international joint ventures (IJVs) has examined the advantages of alliance design type and modes (equity versus non-equity and type of contracts), yet has fallen short in incorporating the insights from comparative corporate governance in looking at, for instance, the structure of boards in IJVs or principal-agent problems in these cross-national inter-corporate relations. At a more inter-disciplinary level, we have much to learn from the rich literature in regulation studies (Levi-Faur & Jordana, 2005), sociolegal research (Braithwaite & Drahos, 2000; Shamir, 2010), political science, sociology, geography etc.

Kobrin's transnational transition as well as his work on understanding political risk assessment is well suited to address calls for relevant research in the field of international business because it encompasses a wide range of phenomena-driven questions. For example, Kobrin's inquiry into the role of the MNC in a public–private global network intertwined with transnational political actors can tackle important issues. One of the questions that his arguments are well equipped to assess is what the role of MNC should be in the 2011 socioeconomic environment dynamics where the G20 finance ministers are planning to design and implement transnational polices seeking to mitigate the almost 1 billion of chronically hungry people triggered by rising agricultural commodity prices in poor countries. 'Multinational firms are the key players in the global food chain and global food security is at the core of France's G20 presidency' (*Financial Times*, 'Chronic hunger to affect 1bn people', Joe Leahy, 16 February 2011, p. 2). The debate is not only about issues at the bottom of the pyramid but also about how MNCs and nations will compete and cooperate in the emerging transnational order.

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