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Multinational Corporations' Key Stakeholders in the Economic Development in Less Economically Developed Countries: A Literature Review

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Abstract
This paper examines whether multinational corporations (MNCs) are essential stakeholders in economic development. Over the years, MNCs have been considered necessary for achieving socioeconomic development, especially in less developed countries (LDCs). However, some literature argues that the presence of MNCs in LDCs has limited benefits for society. This has been premised on the notion that they have failed to help address social ills, such as unemployment, poverty, and inequality, and have been able to achieve undue influence with the politics of LDCs. This paper employs the stakeholder theory to assess whether MNCs contribute to economic development and foster collaborative relations within their communities. This paper used secondary data (through a literature review) to collect relevant information. It was revealed that host governments have limited associations and, to a great extent, control how MNCs conduct their business. While MNCs have been lauded for foreign direct investment inflow, such inflow has often not translated into tangible development for some countries. Furthermore, in developing regions, the lack of adequate legislation, and widespread inequality, corruption and poverty makes it difficult for the potential benefits of MNCs to be realized. Leveraging the potential benefits of MNCs needs to be supported by the relevant legislation and political will, something lacking in many developing countries.

Keywords: economic development; Africa; exploitation; underdevelopment; support; growth; policy

1. Introduction

Over the years, much debate has occurred about what constitutes a multinational cooperation (MNC), its characteristics, and how one is identified. However, Edwards and Krugman (2013) asserted that, in simple terms, a company that does business in more than one country can be considered a MNC, sometimes called transnational corporations. The dominant view around MNCs is that they bring positive effects to host countries, such as excessive market access, technology, capital, and skill transfer. Consequently, for this reason, the governments of developing countries increasingly invest in policy harmonization to help attract MNCs driven by the need to attract foreign direct investment (FDI). According to Whellams and MacDonald (2007), supporters of neo-liberal policies see growth as the key to eradicating poverty, especially in developing nations, and see MNCs as crucial players in achieving that. Therefore, developing countries desperately try to attract foreign investors mainly because neo-liberals maintain that FDI by MNCs offers various benefits, such as employment, infrastructure, educational development, and technological transfer, factors seen as necessary for growth (Moore, 2003).

This paper examines if MNCs are a catalyst for economic development in LDCs. Gerri (2003) argued that MNCs should not be seen as saviors for the developing world but should work with governments to ensure growth and stability. This is likely to remove the notion that they do more harm than good in developing regions. Furthermore, it has been suggested that FDI only benefits host nations.

Increased international commerce and the inflow of FDI, which is critical in the quest to ensure development in developing countries, does not change the lives of ordinary people. Additionally, their association with poor human rights records and, at times, their disregard for the environment makes it hard to reflect on the positive gains developing countries benefit from the presence of MNCs. Considering these contradicting views, this paper will add to the ongoing discussion around whether MNCs contribute significantly towards economic development or are merely driven by profit. This paper is organized as follows: methodology, theoretical framework, literature review, and concluding remarks.

2. Methodology

The study relied on secondary data. Publications from organizations such as Oxfam, the International Labour Organization, and United Nations publications made up the consulted literature. These parties have published extensively on the practices of MNCs in developing nations. To supplement the secondary data, the researchers gathered relevant and up-to-date academic papers related to the theme of this paper. The paper incorporated the benefits and criticism of MNCs, analyzing whether MNCs prioritized their interests above those of their host countries and the nature of the relationships between MNCs and governments, especially in developing countries. Therefore, a qualitative research approach was used alongside a literature review.

3. Theoretical Framework

This paper employed the stakeholder theory as the theoretical framework for examining the efficacy of MNCs in economic development, especially in LDCs. The stakeholder theory starts with the neutral premise that values are unavoidably and openly an authentic business component. Pedersen et al, (2002) further declared that the stakeholder theory within corporations yields progress from ethics in general, ethics in business, and corporate social responsibility (CSR) to the proper management strategies within a corporation. In this sense, the stakeholder theory seeks to guide the implementation of CSR for organizations to benefit all stakeholders. Freeman and

Hagedoorn (1994) associated one question with the stakeholder theory: what is the role and purpose of a company? Answering this question helps companies forge a sense of shared value with stakeholders within their operational environment.

Central to this paper is the significance of MNCs in the economic development of LDCs. While some argue that MNCs are crucial for growth, others conclude it is a myth to believe so. MNCs are profit-driven rather than committed to social and economic development (Jensen, 2002). The theory is appropriate because it is primarily based on a fair socioeconomic footing between MNCs and stakeholders, where all parties will benefit. If adopted well, the theory claims that MNCs would play a significant role in the economic development of LDCs, as the theory identifies customers, employees, suppliers, managers, and the local host community as core stakeholders, that are key to the success of an organization (Hasnas, 1998). Secchi (2007) believed that corporations should be considered investments because their presence in host countries delivers economic benefits, such as increased income tax collection, job possibilities, infrastructure development, and economic growth. Corporations often promote CSR activities that build and reflect their image as a business.

This paper used the stakeholder theory to evaluate the significance of MNCs concerning economic development in LDCs. The theory assessed whether MNCs use their economic power responsibly and effectively toward economic development. This further allowed the paper to assess whether it is a myth or fact to believe that MNCs are crucial in the economic development of LDCs.

4. Literature Review

There have been ongoing debates about the actual economic impact of MNCs in developing regions, especially in countries characterized by abundant natural resources. The debate around MNCs has centered around their role in socioeconomic development and the extent to which they exploit the resources of LDCs. For Ade-Lawal (1983), MNCs are advantageous to developing countries that require FDI. A stable relationship between host countries and MNCs is often seen as equally advantageous because both parties benefit from it. However, there have been some who have seen the growth and expansion of MNCs as troubling, especially for developing countries. Adams et al. (2019) argued that MNCs in developing countries have been accused of resource exploitation and inhumane working conditions and have used their growth to consolidate their political influence on laws and regulations in their favor. There is debate about what is more powerful today: MNCs or nation-states. One cannot deny that MNCs have become wealthier than nation-states, especially in the developing world.

4.1 The global power of MNCs

It is evident that MNCs have become powerful. However, this article argues for the need to dispel the myth that the power of MNCs is restricted to the host country. They also have considerable power and influence in their home countries. For example, they spend millions trying to sway policy and legislation through lobbying. In the USA, big tech companies spent millions of dollars lobbying on an array of issues, such as immigration and influencing the integrity of political elections.

In 2020, for example, Amazon, Facebook, Google, and other top technology giants spent more than USD65 million to lobby the USA government to try and fight regulation (Room, 2021). Leonard (1980) also explained that MNCs greatly influence many politicians in developing countries. Supporting this view, Iftinchi and Hurduzeu (2018) revealed that "MNCs use lobbying and advocacy to engage with governments and politicians in the country of origin and host countries to mitigate political risk".

Hence, there has been a tectonic shift regarding who holds power when developing and implementing public policy. Kapfer and Champion (2013) reflected that there are two ways in which MNCs gain power. Firstly, MNCs draw their strength by operating effectively and efficiently and managing transactions between governments. Because MNCs may relocate manufacturing to

other countries in the name of efficiency, they can also decide on employment and, eventually, the state's wealth. Secondly, governments are sometimes limited in their control and regulations of MNCs because of political action by MNCs, which know the way around legislative processes and their subsequent manipulation (Kapfer & Champion, 2013).

Despite MNCs being viewed as non-state actors, we posit that this assertion should only be limited to developed countries because, in developing countries, they have become infused with policy development and implementation, indirectly becoming state actors, as reflected by Kim and Milner (2019), that "MNCs have a plethora of means to exert powerful influences over the countries they choose to operate in, thus may become indirect state actors and influence policy and legislation".

Because developing countries are characterized by high rates of poverty, inequality, and unemployment, this drives the need for FDI. Hence, politicians often do not enact laws or legislation that hamper or discourage MNCs from investing in their economies because they are seen as job creators and key in the quest for inclusive socio-economic development. This is apparent in oil-rich and natural resource-abundant countries in Africa, such as the Democratic Republic of the Congo, Nigeria, and Sudan.

Bakre (2008) and Amusan (2018) stated that the presence of MNCs has benefited the elites, those in power, but has left communities around where these resources are extracted languishing in poverty and economic misery. This argument was further communicated by Iftinchi and Hurduzeu (2018) and Adeola et al. (2021), who asserted that:

> *Even though multinational companies investing in Africa have the resources to contribute to Africa's development, their power and influence often cast doubt on the government's ability to regulate them fully. Moreover, the unethical practices by some multinational oil corporations have resulted in social movements against them by host communities in some African states.*

However, despite these observations, governments in developing regions have underlined the importance of FDI to ensure economic development. Undoubtedly, MNCs are very influential in their home countries. Activities such as lobbying and support for political parties that share their views on policy means that, without proper checks and balances, MNCs can have considerable influence in policymaking to the detriment of good governance, as in the case in developing countries.

In Latin America, Marchini et al. (2018) revealed that the laws on FDI and the political positions concerning these laws has seen the emergence of two sides. One side argues that FDI is essential for socioeconomic development. The key is for developing countries to leap towards development, prompting the need for good governance as an enabler to attract FDI. However, the other side argues that there is a need for developing countries to have strong regulations and legislation to ensure that the FDI works for developing countries, rather than only increasing the profit margins for MNCs, and not changing the lives of the people (Marchini et al., 2018).

Since the decolonization of Latin America in the 19th century, the conflict concerning MNCs has been driven by the MNCs' home countries' ongoing practice of imposing diplomatic protection on their investments (Marchini et al., 2018). Partnerships between corporations and the home nations of investments in such issues turn investment disputes between industrialized countries in Latin American countries into tax or state matters. Initially, this meant denying Latin American states the legal ability and right to regulate and decide on the investment needed. Accepting the preferential status of FDI, supported by political, economic, and military power linkages, turned into subjugation in some circumstances. Nevertheless, Iqbal et al. (2016), in their study titled "MNCs and their role and contribution in Latin American countries" asserted that "MNCs play a considerable role in the region's development; however, the inflow of FDI is primarily determined by market size, imports, current account balance, and labor force are the determinants of the inflow of FDI".

In Asia, the region has not been spared by the expanding political power associated with MNCs. Countries such as China, India, Japan, and South Korea have extended their regional influence through MNCs. Like Latin America, coupled with underdevelopment and abundant cheap labor, MNCs worldwide have transformed South Asia into a manufacturing hub, often characterized by inhuman working conditions (Bartels & Freeman, 2000).

In sub-Saharan Africa, there have been reports of MNCs not paying taxes to host countries. According to Oxfam, Africa was defrauded by USD11 billion in 2010 due to just one of the tax avoidance strategies employed by MNCs (Mlambo, 2021). Many regional governments cannot detect money transactions due to corruption, political patronage, and a lack of technological systems. MNCs have been known to employ elaborate schemes to avoid paying taxes, and this was highlighted by the report by Oxfam, which indicated that in 2010, MNCs avoided paying tax on USD40 billion in income through a scheme called trade mispricing, in which a company artificially sets the prices for goods or services sold between its subsidiaries in order to avoid taxation (Oxfam, 2015). Moreover, Adusei (2009) communicated that "Corporations declare about 40 per cent of their profits in the African countries where they operate, siphoning the rest into their safe-haven accounts to avoid paying tax which could be used to eradicate poverty".

This paper argues that while the power and influence of MNCs are not only observable in developing countries, with corruption and lack of development, developing countries are more likely to feel the actual effects of their political influence. In LDCs, the absence of a strict rule of law further exacerbates the problem and consolidates the power of MNCs through lobbying.

4.2 MNCs in less economically developed countries (LEDCs)

In this contemporary era, poverty, unemployment, and inequality are devastating the lives of billions of people around the world. The biggest challenge to human society has been the quest to alleviate poverty, bridge the income inequality gap, and ensure employment. The United Nations (2020) revealed that, compared to sub-Saharan Africa, the average income of European Union citizens is 11 times higher. Northern Americans have an income that is 16 times that of sub-Saharan Africans. Latin America and Africa continue to have the most significant rates of income disparity (United Nations, 2020). Following that, it should be emphasized that highly unequal societies are less successful at sustaining economic growth and, as a result, less effective at eradicating poverty. Surprisingly, according to the United Nations (2020), inequalities in LDCs contribute to a concentration of political power among a few people, to the detriment of the many.

Considering these issues, it is essential to question the extent to which MNCs can be regarded as crucial role players in the economic development of their host countries. MNCs have always believed that FDI improves a host country by increasing employment and employment. Despite widespread poverty, unemployment, and income inequality in LDCs, interpretations made by Ake (2002), that MNCs are vital for the development of LDCs, are questionable considering the state of development in LDCs. Furthermore, Bahar (2015) explained that "MNCs are believed to be highly beneficial for developing countries by bringing employment opportunities and new technologies that help stimulate socio-economic development. However, a conducive environment is needed".

Zaidi (2011) outlined several positive impacts that can be considered to promote development in third-world countries, mainly because of MNCs. According to Zaidi (ibid), MNC's investments help broaden the host country's industrial base, broadening the export base of a developing economy. Zaidi suggested that MNCs help combat under-development by creating sustainable employment opportunities and promoting a business culture of competitiveness, quality, and efficiency.

4.3 Existing relationship between LEDCs governance and multinational corporations

The general belief is that MNCs invest in countries that are characterized by good governance (World Bank, 2002; Gani, 2007). According to Eckerberg (2015), governance entails capturing many modalities of coordinating, managing, and steering activity in public affairs. Globerman and Shapiro (2003) added to this viewpoint by stating that preserving one's investments is impossible under a bad governance environment. According to Cadbury (2002), corporate governance is essential to upholding a steadiness between firms and communal aims and economic and social goals to establish aligned interests among individuals, corporations, and society.

According to the "King Report on Corporate Governance for South Africa II" (2002), companies (including MNCs) should not in any way separate themselves from the societies and environments in which they operate; this generally implies that, while the board is accountable to the company structures, it must also act responsively to all stakeholders. A decent relationship between MNCs and governments of host countries can only be realized when a company is aware of and responds to social issues and prioritizes ethical issues, as evident in the stakeholder theory (King Report I, 1994).

For developing countries to capitalize effectively, government construction and executing of regulatory laws for MNCs are significant. A country's absence of law and order can often lead to massive corruption in government and MNCs, which can later hinder any possible economic development initiatives (Johnson & Dahlström, 2004). MNCs are organizations directly linked to resource depletion and may negatively affect host countries, particularly industrial corporations. As a result, they are governed by environmental laws. Nonetheless, Mayer and Jebe (2010) contended this and stated that there are very few international environmental treaties for MNCs. The reality is that most environmental standards and regulations vary from one nation to the next.

The general belief is that MNCs invest in countries characterized by good governance (World Bank, 2002; Gani, 2007). According to Eckerberg (2015), governance entails capturing many modalities of coordinating, managing, and steering activity in public affairs. Globerman and Shapiro (2003) agreed that preserving one's investments is impossible under dysfunctional governance. According to Cadbury (2002), corporate governance is key in upholding a steadiness between firms, communal aims, and economic and social goals, to establish aligned interests among individuals, corporations, and society. According to the King Report II (2002), companies (including MNCs) should not in any way separate themselves from the societies and environments in which they operate; this generally implies that, while the board is accountable to the company structures, it must also act responsively to all stakeholders. A decent relationship between MNCs and governments of host countries can only be realized when a company is aware of and responds to social issues and prioritizes ethical issues, as evident in the stakeholder theory (King Report I, 1994).

For developing countries to capitalize effectively, regulatory laws become essential. The absence of law and order can often lead to corruption in government and MNCs, which can later hinder any possible economic development (Johnson & Dahlström, 2004). Industrial corporations may deplete resources and harm host countries that lack effective regulations. Nonetheless, Mayer and Jebe (2010) asserted that there are very few international environmental treaties for MNCs. The reality is that most environmental standards and regulations vary from one nation to the next.

The World Commission (2004) noted that good governmental policies, at both national and global levels, should be directed toward promoting freedom, security, diversity, fairness, and solidarity, as well as ensuring the international rule of trade law. However, MNCs have been reported to have imposed enormous challenges on the legal framework of developing countries, which tend to protect MNCs from the relatively weak laws of LDCs, making developing nations share unequal trade benefits emanating from biased international trade policies (Oxfam, 2001). Additionally, Amusan (2018) noted that "MNCs as more powerful than their host government/state".

Fox et al. (2002) demonstrated that other factors that cause LDCs to experience hardship are the bureaucratic nature of government institutions and poor environmental and social regulatory regimes. Fox (2004) further noted an urgent need for developing countries to achieve integrated policies to promote and broaden MNCs' CSR agenda toward economic development.

5. Criticism of MNCs

While Western countries have always seen MNCs as key to development and economic growth, especially in LDCs, but this is not always the case. In a perfect setting, MNCs can act as a catalyst for development and growth but in developing countries, where control systems are weak, governments are corrupt, and politicians have self-interest rather than that of those who elected them, MNCs can then become part of this corruption (Zhu, 2017).

One of the significant issues with MNCs is tax evasion. While pleasing shareholders and tax evasion also occur in developed countries, their effects are more detrimental to developing countries that need the funds for development. According to Palansk (2019), MNCs can utilize numerous techniques to evade paying taxes, thus undermining the development of host countries. It has been reported that USD420 billion in corporate profits are transferred out of 79 nations each year. These countries will lose approximately USD125 billion in tax revenue.

Another criticism against MNCs is their propensity to shift manufacturing out of the host nation, eluding millions in taxes and contributing to unemployment. Corporations have the political influence to persuade governments and the economic influence to damage a state's economy if it opposes an MNC (Kapfer, 2006). When conditions in the host country are unsatisfactory, MNCs can relocate their production processes to other states.

MNCs have also come under criticism for their exploitative hiring practices. Inhumane labor conditions and low pay have characterized Asian factories that produce goods for MNCs. Governments may create progressive legislation to improve working conditions and investment opportunities but without proper implementation and enforcement, such laws will likely be ineffective and not attract investment opportunities. This may be due to the lack of resources (Robertson et al., 2016). Due to poor legislation enforcement, approximately 9.5 million people in Asia are employed in slave-like conditions (International Labour Organization, 2005). Another considerable critique of is that MNC's of lack of accountability toward the local communities in which they function often drives the narrative that they are profit driven rather than people orientated. Low wages, abuse, inhuman working conditions and hours, no unions, and the disregard for human rights often characterize these working conditions in some Asian countries where MNCs operate.

The role of MNCs as parties to conflicts has also been a source of great worry. McCartin (2013), for example, claimed that Willy Vangu, a member of the DRC opposition party, exposed a conspiracy between the Congolese government and the exportation of resources from the Congo for far below the cost to foreign shell businesses. Other criticisms of MNCs include capturing markets; the use of capital-intensive techniques; encouraging inessential consumption; setting up environment-polluting industries; health and safety risks; organized crime; tax evasion; and volatility in the exchange rate. Additionally, Chen (2022) noted that "multinational corporations exert undue political influence over governments, exploit developing nations, and create job losses in their own home countries".

Ferdausy and Rahman (2009) also reflected that MNCs can be detrimental to the development of countries because they can prevent autonomous development. After all, increased dependence on MNCs may place dependent countries in a backward position, as argued by the dependency theory. As a result, while there may be beneficial aspects connected with MNCs in developing countries, they can collude with governments and abuse resources to the disservice of the people.

6. Do MNCs prioritize their own interest at the expense of developing countries?

MNCs often establish in developing nations to ensure a steady supply of cheap labor and access to natural resources. According to the United Nations Conference on Trade and Development (UNCTAD) (2006), companies including Reebok, Nike, and Levi Strauss have taken advantage of Indonesian workers. A study conducted in Kenyan cities to examine the MNCs' continuation of poverty revealed the incidence of poverty by region. The national proportion was 52%. Even though MNCs operate in major urban centers, the urban predominance of absolute poverty remains overwhelming. This may be seen in Kisumu, the third largest city in Kenya, which has the greatest rate of absolute poverty, food insecurity, and extreme poverty. The average urban food insecurity rate was 35%, while the overall poverty rate was 45% (Tirimba & Macharia, 2014). MNCs harm host countries because they make it harder for local businesses and entrepreneurs to compete in fast-growing industries, widening income disparities, and employ inefficient capital-intensive technologies that raise unemployment. They rely more on domestic than external capital (Ferdausy & Rahman, 2009).

MNCs are perceived to have more ways to avoid income tax and, as a result, they are frequently connected with tax evasion in developing countries. MNCs that try to avoid paying their fair share of taxes may use aggressive tax planning strategies like taking advantage of any ambiguities in tax laws to get a tax advantage from the difference between each country's tax laws to lower their tax burden and avoid paying their fair share of taxes (Kasim & Saad, 2019). MNCs can decrease their tax burden by taking advantage of tax structures, while increasing shareholder value through earnings per share. As a result, MNCs are motivated to continually evade taxes, which may result in a decreased tax collection for a particular host country (Rego, 2003).

7. Concluding remarks

This paper evaluated the significance of MNCs in the economic development process in LDCs. The stakeholder theory was used as a primary theoretical framework to assess whether MNCs use their power responsibly and effectively toward economic development. The economic development-based partnership between MNCs and stakeholders, (government, municipalities, and host communities) has been touted to be one of the effective strategies for ensuring effective economic development in LDCs that host MNCs. The findings further revealed that MNCs provide employment and business opportunities and contribute to developing countries governed by effective regulations.

LDCs are still characterized by poverty, unemployment, and income inequality. Considering this, the central question of this paper remained significant: Multinational corporations are crucial in the economic development of less economically developed countries. Considering the findings, the paper recommends strengthening economic development partnerships between MNCs and government avenues supported by law and policy to guide CSR activities effectively by MNCs to where they are most needed.

The paper also recommends that MNCs be part of the integrated development plans (IDP) developed in their operational areas. This will help align their CSR objectives with the municipality they operate in and further ensure a significant contribution to development. This paper recommends that local government institutions, MNCs, and the general society develop strong associations as a strategy toward shared economic development goals.

The paper finally recommends that MNCs adhere to the stakeholder theory frameworks. This will ensure an inclusive attempt towards achieving effective economic development that is not only government based but is also inclusive of MNCs that are directly economically benefiting from LDCs.

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