Overview

Professor Dunning offers a thoughtful commentary concerning relational assets and international business activity. He first argues that social capital plays a critically important role in business strategy and performance, where social capital comprises resources that are embedded in networks of relationships. He then focuses on the concept of relational assets, which he views as arising from social capital. Although the working definition of relational assets is somewhat complex, as I will discuss later, the core idea is that relational assets comprise an actor’s ability to form and govern beneficial relationships with other actors, including other firms and actors within a firm. Firms and individuals use their relational assets to gain access to other actors’ assets and to coordinate the use of their partners’ assets with the focal actor’s own resources.

Relational assets, in Professor Dunning’s approach, have a wide range of attributes. At the most general level, they emphasize attitudinal attributes such as values, incentives, trust, and reciprocity. Thus, identifying and measuring them in practice is quite nebulous. The paper offers several useful ways of measuring these ambiguous assets, ranging from firm-level measures such as alliance experience and reputations to country-level measures such as corruption and civic engagement. The basic idea is that the ability to leverage resources that other actors control arises from the ability to engender trust in one’s own judgement and intentions.

The paper argues that relational assets are becoming increasingly important in business practice. The drivers of importance include the growing roles of knowledge intensive economic activities, growth in cross-border business, technological convergences, and general societal changes.

Professor Dunning then places relational assets in the context of his Ownership-Location-Internalisation (OLI) eclectic paradigm of MNE activity. Relational assets provide ownership advantages through superiority in coordinating the use of functional assets. He proposes that MNEs tend to have more relational assets than domestic firms, owing to greater number and intensity of linkages. Relational assets provide locational advantages through superiority in business infrastructures. He proposes that MNEs are increasingly seeking locations that offer superior country-based relational assets, particularly in knowledge and service-intensive industries. Relational assets provide internalisation advantages in that they provide linkages to many other assets. He argues that the growing importance of relational assets means that the locus of internalization is shifting from internalization of functional assets to internalization of governance skills, such that firms increasingly gain value through their ability to govern their access to other actors’ assets.
He proposes that dyadic and network forms of inter-firm organisation will increase, which in turn will increase the value of firms’ relational assets (i.e., their ability to govern inter-actor organisation). Thus, firms may need to emphasise internalisation of the ability to govern (relational assets), as much or more as the ability to produce (functional assets). At the most general level, then, Professor Dunning proposes that firms’ ability to create and use relational assets will have an increasingly important influence on MNE activity. Moreover, if MNEs do in fact tend to have more relational assets than domestic firms, then the growing importance of relational assets would drive an increase in MNE-related activity.

Professor Dunning suggests several implications of his discussion. International business theory needs to give greater attention to relational assets as key sources of firm advantage. Policy makers need to improve social capital and relational assets within their environments. Business managers need to develop greater skill in creating relational assets. Supra-national agencies need to foster international respect for the under-pinnings of relational assets, such as trust and reciprocity.

The strength of the paper lies in the thoughtful development of the idea that the ability to govern the use of assets across actors is a critical component of business skill, whether domestically or internationally. This helps reinforce the shift that international management theory, and strategy theory more generally, has made in recent years. Rather than focus on stocks of physical assets as the primary sources of competitive advantage, many thoughtful analysts emphasize the more nebulous but critically important notion of business capabilities as sources of business advantage. Indeed, at a somewhat more subtle level, the discussion creates a shift of emphasis within knowledge-intensive views of business activity. Knowledge theorists have long argued that what a firm knows how to do is as or more important in driving business performance than the stocks of physical assets that the firm owns. The notion of relational assets refines this sense of knowledge-intensity, by emphasizing that individual managers and firms need the ability to work with a wider range of assets than can be contained within the boundaries of any one function or organization. Moreover, the notion of relational assets provides a multi-level assessment of this governance ability, ranging from individual to firm to social to cross-border abilities to create and manage linkages among resources.

The paper offers several opportunities for development, both in refining the existing argument and in undertaking more fundamental changes that might lead to substantial revision of the core argument.

**Refinements**

Xx refinements offer immediate opportunities for fruitful thought.

First, it would be useful to offer a more focused definition of the core notion of relational assets. The current working definition is somewhat complex. Professor Dunning states that “We shall define a firm’s R-assets as: The stock of a firm’s willingness and capability to access, create, and shape economically and to coordinate the resources and
capabilities, necessary to beneficial relationships; sustain and upgrade the quality of these relationships. Such relationships, - which may take various forms - though always conducted by and between individuals, may take place both within the confines of a particular firm, or between that firm and other organisations or individuals.” This is a useful start at a definition, because it establishes a broad scope for the assessment, but leaves us a bit at sea in terms of identifying the core concept. Let me offer a somewhat more succinct attempt at a definition: *Relational assets are an actor’s ability to form and govern beneficial relationships with other actors.*

Second, once we have an accepted definition, it would be useful to identify the underlying mechanisms that comprise relational assets. Professor Dunning offers several useful indicators of the presence of relational assets, ranging from alliance experience at the firm level to common R&D capacity at the dyadic level to degree of corruption at the national level. These are useful initial indicators, but for the most part are not the underlying mechanisms themselves. Let me suggest some options at the various

Third, speculate how firms create relational assets xx

Fourth, provide greater specificity in the propositions xx.

**Fundamental questions**

Beyond the refinements, xx issues suggest more fundamental questions that we might want to address in developing the notion of relational assets.

xx, it would be useful to drill down into the argument that relational assets are more important now than they have been in the past and, moreover, that MNEs have more relational assets than domestic firms. An alternative argument would be that relational assets have always been important, but what has changed is the types and scope of relationships that are important. In parallel, the difference between MNEs and domestic firms may lie more in the types of relational assets rather than in the number of relational assets.

Xx, it would be useful to extend the mechanisms that underlie relational assets into areas of power, as well as those of trust. Professor Dunning’s approach to relationships emphasizes the importance of inter-actor trust and xx. These clearly facilitate inter-actor activity. At the same time, though, out and out social and economic power continue to play central roles in relationships.

xx, it would be useful to assess which aspects of the argument reflect underlying aspects of relational assets and which stem more from personal values and goals. This issue is particularly salient at the country level. Several of the arguments in the paper address the importance of creating desirable social environments for business activity, and lists factors such as drugs, terrorism, crime, and pornography as socially dis-functional problems. At a high level, there is a strong argument that the social environment affects investment desirability. Certainly, many aspects of the social environment play roles in
measures of country risk and other investment guides that researchers and managers use regularly. Nonetheless, substantial issues arise when attempting to identify which social factors create problems and which are irrelevant for business activity. For instance, the U.S. has substantial crime levels and drug use, as well as an incarceration rate that is among the highest in the world, but also enjoys substantial international investment. Are crime and drug use irrelevant in their impact on relational assets, then, or is it only some types of crime and drug use that matter, or crime and drug use in concert with some other factors?

In parallel, the paper argues that one of the drivers of relational asset growth is that societies are increasingly valuing quality of life, rather than concentrating on purely efficiency related issues. While one might want to believe that this trend exists, there appears to be an element of wishful thinking within the argument. First, it is not clear that “pure efficiency” has been a strong social goal in the past, whether in developed or emerging economies. Second, recent trends in market economies may actually speak to greater emphasis on economic efficiency, through corporate reorganization and xx, perhaps at the cost of reducing corporate ability to address the needs of multiple stakeholders.

xx, address the degree to which within-firm and inter-firm relational assets differ conceptually.

xx, determine the role that relational assets play in relationship lock-in, which sometimes counters their role in creating business value. For the most part, the paper takes a positive view of relational assets, explicitly viewing them as means of achieving beneficial access to resources. At the same time, though, relational assets may well tend to create semi-permanent ties to particular actors.