Sustainable Development Strategies of Multinationals in Developing Countries: A Conceptual Framework

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Abstract

In recent years, foreign direct investment (FDI), through multinational enterprises (MNEs), has soared (World Bank, 2010). On the other hand, the past few decades have also witnessed increasing interest in the social and environmental impacts of international business organisations due to pressing global problems such as climate change and rising inequalities giving rise to the concept of sustainable development. Part of the literature suggests that while MNEs have been contributing to economic growth of various nations, especially the developing economies; wealth that was created was at the expense of the natural environment and the social well-being of these poor nations (Stiglitz, 2007). Indeed, for instance MNEs have been criticised to have invested in certain countries to benefit from less stringent regulations in terms of pollution in so-called 'pollution havens'. While these investments might bring growth to these countries in the short term, the real issue is whether such development is sustainable in the long term. Conversely, MNEs are also progressively being recognised as a catalyst of change and possibly contributing to alleviate certain problems given their outreach and resources. This has come into the limelight of research agendas in terms of sustainable development (SD) and corporate social responsibility (CSR) activities [(Garrod (1998); Rondinelli and Berry (2000); Rugman and Verbeke (2000)]. However, sceptics argue that MNEs often use sustainability or corporate social responsibility reports as "green wash" to mask or divert public attention from business practices that continue to endanger the environment and create risks for the communities in which they operate. Questions remain about how multinationals conceive of sustainable development, how comprehensive, integrated and effective their sustainable development practices really are (Rondinelli, 2006). This paper reviews the current empiricism on sustainable development strategies of MNEs particularly focusing on the developing world. Based on diverse literature streams, this paper is a conceptual one which aims to develop a framework to understand the drivers for and the various channels through which MNEs embrace sustainability. The conceptual framework will ultimately be used for empirical analysis in a developing country context to study and evaluate the impact of MNEs from a sustainable development perspective.

Keywords: Multinationals, Sustainable Development, Corporate Sustainability, Developing Countries

1. Introduction

Like democracy and globalisation, the notion of sustainable development has become one of the most pervasive and disputed concept of our time. The idea of Sustainable Development was first popularised by the Brundtland Report (World Commission on Environment and Development, 1987) as a result of the growing awareness of global problems such as escalating environmental disturbances and socio-economic issues such as poverty and inequality as well as concerns about a healthy future for humanity. Sustainable development was defined as ‘‘development that meets the needs of the present without compromising the ability of future generations to meet their own needs’’ (WCED, 1987, p. 43). Sustainable development is the process to reach the goal of sustainability at the macro-level of societies (Robèrt *et al.*, 2002). Sustainable development can however only be fostered if corporations, the main economic engines embrace the idea of corporate sustainability. Corporate sustainability contains like sustainable development, three pillars namely: economic, ecological and social (Ebner and Baumgartner, 2006). For organisations, sustainability implies the challenge to simultaneously improve social and human welfare while reducing their ecological impact and ensuring the effective achievement of organisational objectives (Sharma, 2003).

The concept of corporate sustainability has been gaining importance in both organisational theory and practice. Sustainability with respect to multinational enterprises (MNEs) has also come in the forefront as from the late 1990s (Rugman & Verbeke, 1998, 2001; Lundan 2004). MNEs can play a key role given their global influence and activities in which they are confronted with a range of issues, stakeholders and institutional contexts in both home and host countries. MNEs were, in fact amongst the first organisations that the United Nations (1992) urged for a sustainable development. Rosenzweig and Singh (1991, p 340) argue that "on one hand, a multinational enterprise is a single organization that operates in a global environment, with a need to coordinate its far-flung operations. On the other hand, an MNE is comprised of a set of organizations that operate in distinct national environments”. With established markets becoming saturated, MNEs have turned to emerging markets in the developing world. Kolk and Pinkse (2008) highlight the urgent need for further research about MNEs’ global influence on sustainability regarding problems like climate change and environmental damage.

Although sustainability has received much attention in recent studies, there is still little insight about how the adoption of corporate sustainability practices is actually achieved inside organisations especially in the developing countries. This paper thus reviews and evaluates the current empiricism on sustainable development strategies of MNEs with a particular emphasis on the developing world. Based on diverse literature streams, this paper is a conceptual one which aims to develop a framework to understand the drivers for and the various channels through which MNEs embrace sustainability in the context of a developing country. The profiles and maturity levels of these MNEs with regards to their sustainability practices and strategies can also be assessed.

We first provide an overview of the literature. Next, theoretical foundations for the corporate sustainability model are reviewed and the model is developed, each of the three major constructs of sustainability, the drivers, channels and levels through which they operate are derived and discussed. Finally, in the concluding section an evaluation of the framework, possible limitations of the model and implications for further research are considered.

2. Literature Review

2.1 Corporate Sustainability

Definitions of corporate sustainability diverge according to the extent to which they categorise corporate sustainability as either mainly an ecological concern (Shrivastava, 1995) or as social responsibility (Carroll, 1999) or broaden the concept of corporate sustainability to integrate corporate activities with concern about the natural and the social environment (Dunphy, Griffiths, & Benn, 2003; Dyllick & Hockerts, 2002; van Marrewijk, 2003). Some scholars also use the term ‘‘corporate social responsibility’’ to describe the incorporation of social, environmental and economic concerns into an organisation’s culture, decision-making, strategy and operations (Berger, Cunningham, & Drumwright, 2007). The resulting multiplicity of definitions has created ambiguity and barriers in the quest for corporate sustainability, as organisational members find it hard to interpret and operationalise the term (Faber, Jorna, & van Engelen, 2005). Many organisations have introduced or changed policies, products and/ or processes to address pollution, minimize resource use and to improve community and stakeholder relations (Crane, 2000). Several scholars, however, maintain that these changes are inadequate as they are superficial and not creating sustainable organisations and industries (Hart & Milstein, 1999; Senge & Carstedt, 2001).A sustainable development-oriented corporation is therefore an organisation that ‘contributes to sustainable development by delivering simultaneously economic, social and environmental benefits’ (Hart and Milstein, 2003, p. 56).

2.2 Multinationals in Developing Countries

MNEs have played many roles in their host markets. Some of these have been positive for instance, technological transfer, provision of capital and job creation while conversely MNEs have also been criticised whether rightly or not, to have invested in certain less developed countries to benefit from less stringent regulations, particularly in terms of pollution and natural resource exploitation. However ,the disposition of MNEs in being not only partially responsible for the problems, but also contributing to solutions, is being recognised in terms of sustainable development initiatives and corporate social responsibility activities [(Garrod (1998); Rondinelli and Berry (2000); Rugman and Verbeke (2000)].

2.3 Multinationals and Sustainability

MNE actions to address the issue of sustainability ranges from ethical sourcing initiatives (Fung, O’Rourke, & Sabel, 2001; Frenkel & Scott, 2002; Perez-Aleman & Sandilands, 2008); environmentally conscious facilities; product design and production methods that minimise energy consumption and curb emissions (Shrivastava, 1995; Bansal & Roth, 2000; Christmann, 2004), and involvement in social and humanitarian projects (Hess, Rogovsky, & Dunfee, 2002; Selsky & Parker, 2005). The effect of MNEs on sustainable development remains, however, largely indeterminate and requires further research (Dunning & Fortanier, 2007; Meyer, 2004).

2.4 Multinationals and Sustainability in Developing Countries

The developed economies in North America, Western Europe and East Asia received most attention in terms of sustainability (Kolk and Tulder, 2010). This led Egri and Ralston (2008, p. 325) to argue that ‘it is particularly troubling that there has been relatively little on-the-ground CR [corporate responsibility] research in countries where the need for corporate responsibility is most pressing due to greater poverty, environmental degradation and institutional governance issues’. This statement applies even more when extended to sustainable development. This further hint that much of the profuse research originating from Western country contexts may well be irrelevant for developing country contexts (Prieto- Carrón *et al*, 2006; Fox, 2004).

An analysis of studies in sustainable development and corporate social responsibility in developing countries further demonstrates the context dependency (Dobers, 2009): in Central and South America (Guerin, 2007; Adams *et al*, 2006; Weyzig, 2006; Vives, 2006; Anderson *et al*, 2005; Haslam, 2004), in Africa (Buch *et al*, 2009; Kehbila *et al*, 2009; Keitumetse, 2009; Mitchell *et al*, 2009; Wahba, 2009; Edoho, 2008; Short, 2008; Ite, 2007b; Ite, 2007a; Ofori *et al*, 2007; Rinzin *et al*, 2007; Alemagi *et al*, 2006; Dunfee, 2006; Idemudia *et al*, 2006; Visser, 2005; Ite, 2004), in Asia (Birkin *et al*, 2009; Cheung *et al*, 2009; Naeem *et al*, 2009; Sobhani *et al*, 2009; Windell, 2009; Baughn *et al*, 2007; Guerin, 2007; Frost *et al*, 2006; Virtanen, 2006; Chapple *et al*, 2005; Frost *et al*, 2005; Sahay, 2004; Koolhaas, 2001) and in East Europe and Middle East (Ray, 2008; Guerin, 2007; Jamali, 2007; Jamali *et al*, 2007; Küskü, 2007). From the multinational's perspective, sustainable operations in a particular country may entail differences depending on the stakeholders involved as well as factors depending the level of development of the host country (Chen et *al.* 2009) such as the institutional framework and diverging views of the role of business in society (Devinney, 2009).

3. Theoretical Underpinnings and Conceptualisation of Model

3.1 Drivers of Corporate Sustainability

Campbell (2007) highlights that little theoretical attention has been given to understanding why corporations act or not in environmentally, socially and economically responsible ways (Bansal 2005; Russo 2003). Similarly, Basu and Palazzo (2008) argue that researchers have failed to understand the underlying mechanisms or triggers that shape activities related to sustainability. There is a propensity to present an inventory of sustainability activities rather than to investigate the reasons behind those activities (Fry and Hock, 1976; Orlitzky et *al*., 2003; Snider et *al*., 2003).

Internal and/ or external drivers serve as a starting point for the implementation of sustainability principles and practices in the organisation. In terms of internal drivers, the resource-based theory has been widely used in the literature. The resource-based view is based on the fact that corporations differ in terms of the capabilities they have under their control.

Our goal here is to utilize as the underlying theoretical foundation of the institutional theory and stakeholder theory so as to capture the why behind socially responsible practices. The focus will be thus on the external drivers of corporate sustainability. In terms of external drivers, the institutional theory and stakeholder theory are gaining ground. According to North (1994, p. 360), institutions can be defined as "humanly devised constraints that structure human interaction" which "are made up of formal constraints" for instance, rules and laws as well as "informal constraints" for example, norms, conventions, self-imposed codes and " their enforcement characteristics". Therefore, institutional mechanisms can be further classified as regulatory forces, self-regulation and stakeholder influence.

Sustainable development (SD) policies may thus either emanate from governments and take the form of a regulatory force or are applied more or less voluntarily by a company's management. When SD policies are implemented 'more or less voluntarily', stakeholder influence comes into play (Steurer et *al*., 2005). Internally, pressure from investors, employees, customers, and suppliers has pushed sustainability up the corporate agenda. Externally, legislation, regulations, and voluntary codes of practice, such as the United Nations Global Compact (UNGC; UN, 2007) have added to the pressure for corporations to be seen to act in a sustainable way. Institutional forces in the shape of norms and expectations have also required corporations to acknowledge the importance of sustainability (WBCSD, 2000). Sustainable development pressures amplify the number of influential stakeholders by assembling different parties related to social concerns such as communities and human rights NGOs and entities concerned with environmental problems for example, environmental NGOs and consumers as well as groups having economic issues for instance, shareholders (Escobar and Vredenburg, 2010).Baker (2009) advocates for a "smart mix" of a strong state and stakeholder participation.

Although sustainable development is without any doubt a global issue, national governments and supranational organisms have not been able to come up with global enforceable rules and regulations. Similarly, problems like climate change have not yet led to the emergence of a so-called "market morality", in other words, a "set of ethical norms that the vast majority of MNEs would attempt to practice, because, other things being equal, adopting such moral practices are either necessary for economic survival or confer advantages that enhance the MNE's prospects for success" (Bowie & Vaaler, 1999 p. 165-166). Self-imposed codes of conduct (Kolk & Van Tulder, 2005) have thus been adopted to some extent by MNEs in certain sectors to address the institutional voids and guide corporate behaviour and initiatives. The absence of widespread international regulation on social and environmental issues can be considered as both a problem and an opportunity for MNEs. It means that there is a 'moral free space' in which 'there are no tight prescriptions' for MNEs and 'managers must chart their own course' (Donaldson, 1996: p. 56).

Country institutions however can have a major impact on the strategies and operations of MNEs. Scholars like Porter and Van der Linde, (1995) claim that governments, through the medium of institutions such as regulatory bodies compel corporations to conform to sustainable development practices with respect to certain societal concerns and organisations facing similar institutional pressures tend to adopt similar strategies and practices (DiMaggio and Powell, 1983) leading to coercive isomorphism.

The home country is also likely to exert a powerful influence on the MNE strategy formation due to the unique regulatory and cultural environment of countries. (Kolk and Levy, 2002). The issue of culture becomes particularly important when looking at firms, such as MNEs, which operate in a cross-national setting where the values of their home country may differ from other cultures in which they operate. A few studies have explored the relationship between corporate social and environmental responsibility and culture (e.g. Branzei et al., 2001; Egri et al., 2004). Lynes and Andrachuk (2008) argue that the empirical research in this area remains limited and requires further investigative research.

Level 4

Level 3

Sustainability Profiles

Level 2

& Maturity Levels

Level 1

CSR
Partnerships

Value Chain

Sustainable Corporation

Environmental
Economic
Social

Channels & Pillars
of Sustainability and Trade-Offs

The Corporation

Self Regulating
Regulatory

External Drivers

Normative Pressures
Coercive Isomorphisms

Mimetic Processes

Culture

Stakeholders

Market Pressures

Institutions

Figure 1 Sustainable Development Strategies of Multinationals - A Conceptual Framework

Figure 1 illustrates the concept of the 'House of Sustainability for MNEs'. The house is based on the triple-bottom line concept (Elkington 2004) and has been adapted from Teuteberg & Wittstruck's House of Sustainable Supply Chain Management (2010). Sikdar (2003, p. 1928) defines sustainability as "a wise balance among economic development, environmental stewardship, and social equity". The three facets of sustainability are represented here as pillars which are required to keep the building in balance.

3.2 Pillars of Corporate Sustainability

Economic sustainability is fundamental to corporate financial success—in the long run the corporation simply cannot survive if expenditure exceeds income. Social sustainability embodies the humanitarian context of business and relates to issues such as poverty and income inequality; access to health care, clean water and sanitation, eradication of diseases such as HIV/AIDS, education, especially for females and impact of globalisation. Third, environmental sustainability considers the impact of business on the quality and quantity of natural resources, the environment, global warming, ecological concerns, waste management, reductions in energy and resource use, alternative energy production (Townsend, 2008). Some scholars, however highlight that trade-offs might exist between the 3 pillars of sustainability in context of organisations.

3.3 Channels of Corporate Sustainability

Corporations can address sustainability through internal voluntary initiatives as well as externally through partnerships and collaborations with other institutions and stakeholders (Frenkel & Scott, 2002; Selsky & Parker, 2005). One of the most popular corporate sustainable development (CSD) frameworks describes the CSD construct as represented by the three correlated dimensions of SD, namely social, economic and environmental (Ness et *al.* 2007; Erol et *al.* 2009) and these dimensions of CSD operate through corporate social responsibility as well as through economic development through value creation in the organisation for instance, improvements in the effectiveness and efficiency of services and products and environmental management (Sharma 2002; Bansal 2005).Studies on corporate sustainable development (CSD) have adopted various perspectives. MNEs willing to go in the direction of sustainable development and utilising sustainability as means for competitive advantage may implement these principles in the value chain (Hall and Vredenburg, 2003). Upstream activities (back-end) for instance sourcing of raw materials, R&D, capital, production or downstream (customer-end) activities such as sales, marketing and distribution or the complete value chain can be affected (Kolk and Pinkse, 2008, Rothaermel & Hill, 2005; Tripas, 1997). If MNEs are able to adapt to both upstream and downstream activities simultaneously, this will contribute to a more sustainable competitive advantage because such investments will be more difficult to imitate (Verbeke, Bowen & Sellers, 2006).

3.4 Sustainability levels and Maturity Profiles

Using the methodology proposed by Baumgartner and Ebner (2010), it is further proposed to assess the maturity level and the profiles of the MNEs. There are different types of sustainability strategy (Dyllick, 2000; Hardtke and Prehn, 2001; Schaltegger *et al.*, 2002; Baumgartner, 2005, p. 61). Baumgartner and Ebner (2010) propose 4 categories namely:

- Introverted – a risk mitigation strategy which focuses on legal and other external standards concerning environmental and social aspects in order to avoid risks for the company.
- Extroverted – legitimating strategy which focuses on external relationships in order to have the license to operate.
- Conservative – efficiency strategy which focuses on eco-efficiency and cleaner production.

• Visionary – holistic sustainability strategy which focuses on sustainability issues within all business activities.

These strategy types describe generic possibilities to deal with the challenge of sustainability, with different environmental and social aspects of business activities according to the sustainability principles of Robèrt *et al.* (2002).

4. The Way Forward

The model developed can be instrumental in assessing the role of institutions, context specific external drivers as well as the role of stakeholders, culture and the country of origin effect. Possible trade-offs between pillars, the channels and the corporate sustainability profiles and maturity levels of MNEs operating in developing countries can also be investigated.

It is proposed to empirically test this model in a developing country context namely Mauritius an island state in terms of an exploratory study about the sustainable development strategies adopted by the MNEs in the country. Mauritius proves to be an interesting case study as, in its June 2009 Budget, the Government has made it mandatory for businesses either to devote 2 per cent of their profits to CSR projects, or to pay these 2 per cent to a special fund which will be used to implement social or environmental projects. However, the 2 per cent levy on business organisations may in fact lead organisations to become more passive, given that if they pay these 2 per cent to the government, there is no need for them to be involved in any initiative at all. Furthermore, The ‘‘Maurice, Iˆle Durable’’ (MID) project was also launched by the Mauritian Government to promote sustainable development in the country and for protecting the quality of life of its citizens. Moreover, the country is attracting many multinationals as Mauritius ranks among the highest in Africa in terms of the ease of doing business (World Bank, 2012) and it would thus be interesting to investigate how these enterprises are addressing business affairs within a sustainable development context.

5. Conclusion and Areas for Future Research

The conceptual framework is a starting point for an exploratory research about how MNEs are addressing business affairs within a sustainable development context in a developing country. The framework could subsequently be tested across various industries/ sectors and in other developing countries. The limitations of the model include the fact that internal drivers of corporate sustainability have not been incorporated and the model could further be enhanced using more detailed mechanisms especially about the channels through which the organisation operates. Information provided by the model could be used for more in-depth analysis of different sectors and industries.

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