Why and how should MNEs adapt their CSR in a specific host country

Q. Chen, M. L. Mladenova, C. Y. Liao, K. J. Gong

Business School, University of Sussex, Brighton, East Sussex, United Kingdom

ABSTRACT. The growing number of studies in the field of international business (IB) concerning the relationship between multinational companies and their social position is mainly affected by significant changes in the global business environment. In this context, this article will focus on the relationship between MNEs and CSR, which is why should MNEs adapt their CSR in a specific host country. Multinational companies (MNEs) can boost their reputation by advanced social and management initiatives. MNEs can benefit themselves after they adjust their CSR for the host country.

KEYWORDS: CSR, MNEs, Host Country, Developing Country, Human Right, Pollution, India, China, Bangladesh, Coca-Cola, Wal-Mart, Volkswagen

1. Introduction

The world is starting to become globalized, in this constantly evolving new international environment. The global capital market is internationally integrated, Corporate social Responsibility (CSR) has become a major institutional reform issue. The growing number of studies in the field of international business (IB) concerning the relationship between multinational companies and their social position is mainly affected by significant changes in the global business environment. Because of the pollution and lack of resources, MNEs face enormous pressures to be more socially responsible for doing business. Corporate Social Responsibility is a model of self-regulation that allows an organization to be socially responsible. For governments, CSR promotes stronger corporate governance and government ethics helps businesses to attract both domestic and international resources. For firms, an efficient market would distinguish best corporate ethics and governance practises between firms. (Ahamad.N and Al- Amri, 2013) According to Aguilera.C and Guerrero.V(2017), Multinational companies (MNEs) can boost their reputation by advanced social and management initiatives. However, it is difficult and complex to define and satisfy stakeholder social requirements, because MNEs must deal with home and host countries’ demands. In addition, the aspirations of stakeholders are different from developed to developing countries.
The aim of our study is to analyse and examine why and how MNEs should adapt their CSR in specific host country. Hah and Freeman (2013) claims that MNE companies frequently face conflicting expectations between the home countries and the host countries as a consequence of institutional differences and different stakeholder requirements in terms of their business abroad. Consequently, these businesses face the dilemma of sustaining parent-based approaches or modifying their organisational approaches to meet their host countries' demands in search of external legitimacy. Although CSR strategies are increasingly relevant to multinationals worldwide, research into CSR strategies by MNE subsidiaries in a wide range of emerging economies is still relatively early on.

To address our aim, the next section addresses the related MNEs and CSR literature, followed by the further reviews about how different companies adopt CSR under different conditions. We then adapt the qualitative analysis method and inductive research as our methodology. This work is beginning with the comparison of some literatures similar to our subject, which will then be examined in host countries by dozens of international affiliates of multinationals (MNEs). Because each company will have different understanding and analysis of CSR, it is not accurate enough to analyse this problem from a macro perspective. We chose four MNEs (Apple, Volkswagen, Walmart, Coca Cola) examples and examine how they overcome the issues.

2. Literature review

Under economic globalization, CSR has become an important issue for international businesses to be stable and have an eternal development in the society whether in the home country or over the host country. The American economist Milton Friedman had stated making profits is the only CSR of the businesses in the 1970. However, Schwartz and Saia (2012) point out Friedman’s interpretation of CSR will not be suitable nowadays. They believe the world has experienced several economic recessions, the natural environment is facing severe damage, the excessive development of capitalism has made the enterprises grow bigger and also the resources and capabilities of the multinational enterprises have even surpassed many governments in the past half century. From the highlights above, companies will not only provide the employment opportunities and create wealth, they should play a positive role in the sustainable development of the environment and the society. CSR has once again been redefined. Enterprises should not only create greater benefits for the shareholders, but also take into account the rights and interests of all the relevant stakeholders. The stakeholders are people related to the operation of the enterprise, including employees, customers, suppliers, consumers, communities, countries, and the natural environment from internal to external. With the increasing influence of multinational companies on global economic and social development, the social responsibility of the multinational companies have aroused widespread concern in the international community and the business community. According to Campbell, Eden and Miller (2012), most of the MNEs are able to overcome the liability of foreignness (LOF) and achieve their business goals by engaging with the
CSR. They have found participating in the CSR helps companies be more aware of the social, economic and the local customs of the host country to penetrate the market information, consumer resources and the market research. In contrast, if a company fails to participate in the CSR, it may have a negative impact and ethics issues during expanding the business in the host country, facing the political and the legal liabilities and might also undertake lots of opinion pressures from the public. Although this research has shown that focusing on the CSR and corporate capabilities are not comparable, also the study had been attention in America businesses rather than the businesses in the developing countries, however, CSR has been considered as an important factor affecting the development strategies, the operating performance and the behaviour of the multinational companies in the host country. In Yang and Rivers’ study (2009), corporate governance and supply chain management have a certain degree of association. Many of MNEs have proposed the requirements to abide by the perpetual operation norms. For example, Apple Inc has required suppliers to adopt green energy. Moreover, CSR helps corporate image. A business with good CSR helps increase employee recognition, which naturally helps the company's competitiveness. Good image will also have a positive impact on business. Therefore, CSR is not directly related to performance, but it can bring indirect benefits to operations. Enterprises are not just tools for making profits, they are also as a responsible citizen. The future leader level enterprise will not only be the leader in the business world, but also the leading force for the society. It is difficult for companies that have not implemented CSR to obtain consumer recognition. However, CSR has become one of the necessary conditions for the sustainable development of enterprises.

3. Methodology

As mentioned above, this article will study the question which is ‘Why and how should multinational enterprises (MNEs) adapt their corporate social responsibility (CSR) in a specific host country?’. Firstly, according to the type of question, after a long time of analysis, we decided to adopt the qualitative analysis method and inductive research. Then, we decided to divide the question into two parts: 1. Why should multinational enterprises (MNEs) adapt their corporate social responsibility (CSR) in a specific host country; 2. how should multinational enterprises (MNEs) adapt their corporate social responsibility (CSR) in a specific host country, and study them by slightly different methods. However, just like the data used for qualitative analysis will mainly be some primary data like interviews. In fact, it is very difficult to obtain these data in this research, and many problems will be encountered such as time constraints, complexity, and we were suggested the best use of secondary data. Hence, this research will take one of the most widely used strategies of qualitative data analysis which is ‘grounded theory’ that begins with the ‘coding’ and ‘iterative process’. (Strauss & Corbin, 1994) A brief explanation is by comparing some articles that are similar to our topic, then observe dozens of foreign affiliates of multinational enterprises (MNEs) corporate social responsibility (CSR) performance in different host countries, generating some conclusions after repeated comparisons. Then, through four case companies that we carefully selected which
are Coca Cola, Walmart, Apple and Volkswagen to verify the truth of these conclusions. (In detail refer to Appendix A) Finally, through these four carefully selected examples to explain how multinational enterprises (MNEs) adapt their corporate social responsibility (CSR) in specific host countries and overcome these serious problems mainly caused by liability of foreignness (LOF).

4. Findings

In terms of the research findings, we decided to summarize below several conclusions into positive and negative two aspects. In positive aspect, the following three conclusions were drawn: conclusion 1, Multinational enterprises (MNEs) effectively adapt their corporate social responsibility (CSR) in a specific host country can provide the competitive advantage of the enterprise and reduce risk, and this strategic operation may also bring significant benefits to the Multinational enterprises (MNEs). (Allen & Husted, 2006); conclusions 2, one of the important issues that foreign affiliates of multinational enterprises (MNEs) always face when they enter host countries is liability of foreignness (LOF), Multinational enterprises (MNEs) can demonstrate social commitment to host country populace through effectively adapt their corporate social responsibility (CSR) in a specific host country, thus improve their social legitimacy and overcome liability of foreignness (LOF). (Campbell, Eden & Miller, 2012); conclusion 3, Multinational enterprises (MNEs) effectively adapt their corporate social responsibility (CSR) in a specific host country can lay a foundation for the rapid expansion of enterprises in this specific host country, which is more acceptable because effective corporate social responsibility (CSR) strategic management lowers the likelihood of MNEs encountering public crises. (Zhao, Park & Zhou, 2014) (In detail refer to Appendix B) In negative aspect, the following conclusion was drawn: Multinational enterprises (MNEs) cannot effectively adapt their corporate social responsibility (CSR) in a specific host country will lead to serious economic consequences for the firm. (Allen & Husted, 2006) As a recent classic example that is D&G China crisis, D&G who cannot effectively adapt their corporate social responsibility (CSR) in China cause a successful luxury brand to suddenly all the key Chinese online stores which sell luxury goods removed D&G products from their shelves and cancel the long-planned big show in China, which directly caused huge economic losses. (Zhou, 2018) As for how to verify the truth of these conclusions through four case companies that we carefully selected. (In detail refer to Appendix B)

The literature and the different organisations have their own definition of CSR. There is no one single way to explain the social responsibility of each multinational enterprise, which makes it difficult to create one best CSR strategy. However, in different countries the social contribution must adapt with the needs of the public. One global MNE may have different CSR missions in a different country. Although there are no specific regulations of CSR, MNEs must include non-financial performance in their annual report as environmental information and employee matters based on the 17 sustainable development goals of the United Nations.
In the findings of our research we provide an overview of 4 MNEs that have failed their social responsibilities and how the lack of adaptation and neglect may affect the enterprises. The findings will investigate how the conflict in the different cases affected the multinationals, failed to contribute to United Nations Sustainable Development Goals and how they overcame the issues. By following the “Carroll's CSR pyramid” framework (Archie Carroll, 1991) which explains how and why the companies should take social responsibilities, we have collected evidences and the following consequences of neglecting any of the 4 main levels of the pyramid (Economic, Legal, Ethical, Philanthropic– Appendix C)

4.1 Coca Cola

In 1999, when expanding in India, the famous American company Coca Cola's growth was increasing rapidly but has failed to contribute their Legal and Philanthropic responsibilities. The company was accused of water pollution, over extraction of ground water and causing water shortages in the Indian town Plachimada (Ravi Raman, 2007). The citizens of the town have claimed that as soon as the Coca Cola factory has opened, they have experienced water scarcity. Even denying the claims, Coca Cola lost more than 5 years of arguing in the court. But the time they have lost cannot compare with the harm that the company has experienced. In a country like India, where water pollution is a well-known problem, the CSR strategy must have predicted the potential threats and take better measures before starting operating. The lack of proper research of the area and the country environment led to reputational damages, loss of consumer trust, drop in sales not only in India but globally. There is evidence that even in the country of origin (USA) the customer demand has decreased (Ravi Raman, 2007). In 2008, Coca Cola finally took water damage-control measures and published an environmental performance report (Chaklader & Gautam, 2013). They started participating with the local communities in water projects and even creating “Coca Cola Indian Foundation” and partnering in 2007 with WWF to improve Coca Cola water usage (Cristina A. Cedillo Torres, Mercedes Garcia-French, Rosemarie Hordijk, Kim Nguyen, Lana Olup, 2012). In Coca Cola annual sustainability report from 2013, the company has started to place the Environment and Community expenses as priority with 53% of the total distribution of Coca Cola CSR expenses, followed by Education, Active healthy living and Other initiatives. (In detail refer to Appendix D)

4.2 Walmart

The American groceries store Walmart well-known as the world largest retailer has several conflict cases due to failing their Legal and Ethical responsibilities to the society. The law case of Walmart Stores Inc. v. Dukes et al from 2011, Walmart has been sued by 1.5 million women, their employees for gender discrimination due to the low pay rate compare to the male employees (Cristina A. Cedillo Torres, Mercedes Garcia-French, Rosemarie Hordijk, Kim Nguyen, Lana Olup, 2012).
In 2005, the company was accused of using child labour as children were found working in their factories in Bangladesh. Both cases harmed the reputation of the company. Recent evidences are still naming the company as unethical, despite all the changes that have been done since then. Appendix E shows the low level of Human Rights concerns. However, Walmart keeps trying to clear their reputation. In their last company's annual CSR report from 2019 they are presenting eight goals, most relevant to Walmart, one of which is concentrating in detail on human rights issues. (In detail refer to Appendix E)

4.3 Apple

The world leader in technology – Apple Inc – also has been reported for unethical working conditions. The manufacturer of Apple in China, Foxconn registered 13 suicides cases of their employees in one-year. The reason was related to the poor conditions of the working environment that the management had introduced, also called military-style management approach (Audrey Tsui 2012).

Workers’ health and safety conditions at the suppliers were also questioned as in May 2010 in explosion at Foxconn, two workers were killed and sixteen were injured (Cristina A. Cedillo Torres, Mercedes Garcia-French, Rosemarie Hordijk, Kim Nguyen, Lana Olup, 2012).

To overcome the issues, Apple adapted to the Labour Law in China. Introduced new measures and created a professional working environment for all the employees; replaced the management and created updated training programs. However, the last CSR report from 2019, Apple is more concentrated on the environmental issues as footprint manufacturing, than ethical responsibilities.

4.4 Volkswagen

The large car manufacturer Volkswagen was caught producing highly contaminating diesel engines. The quantity of nitrogen oxides was 35 times higher than the allowance. Volkswagen also tried to cover the test result by installing software that shows less CO2 than the normal norms. The device was installed in each car produced and sold from 2009 to 2015. The CSR report was intentionally published with wrong data (Alfonso Siano, Agostino Vollero, Francesca Conte, Sara Amabile, 2016). The company was accused of using the fake CSR report as a marketing strategy against the competition. The scandal led to a crash in Volkswagen stock with 40% and echoed internationally in Europe, USA, Canada and Australia. The German manufacturer had intentions of increasing the market shares in the USA, despite the previous problems with introducing diesel technology. After the scandal, consumers were refusing to buy their vehicles as they were not covering the international environmental regulations criteria. The company paid more than $30 billion in penalties since 2015 (Jae C. Jung 2019). By 2019 the company is still experiencing the consequences and finds it difficult to rebuild its previous reputation.
After analysing the details of the conflict that have arisen through the years due to neglecting the adaptation of CSR, we have concluded that the CSR adaptation plays a particularly important role in the future of MNEs. Wrong adaptation may affect the reputation, social legitimacy and financial performance of a company not only in the host country but as well as in the home country. MNEs must consider not only doing good for the societies, but also to avoid doing bad. One more issue that needs the attention is the “green washing” as in the Volkswagen case. There are companies with perfect CSR reports, however what has been written and what has been done is in contrast. The Green washing is introduced with this purpose, to make the difference between talk and action. (Alfonso Siano, Agostino Vollero, Francesca Conte & Sara Amabile, 2016). The 4 levels of the pyramid must be balanced and linked together and not used one instead of the other. Otherwise, a company culture may be considered by the society without ethical concerns but with dominated financial considerations. If MNEs are taking all the responsibilities as per the Carroll's CSR pyramid framework, create their self-regulations and adapt accordingly to the host country law, restrictions and culture, this could avoid further financial and non-financial damages.

5. Conclusion

Our goal is to examine why and how MNEs should adapt their CSR in specific host country. Firstly, by reviewing the literatures about CSR and MNEs, Campbell, Eden and Miller (2012) noted that most MNEs are able to tackle FLL and achieve their corporate goals by collaborating with the CSR. Our result shows that there is a positive relationship between MNEs’ and CSR. It is extremely important for your business to work in a way that shows social responsibility. Although it is not necessary, it is regarded as a good practise that social and environmental issues are taken into consideration. According to the findings, it shows that there is no one way to explain each multinational company's social responsibility which makes it hard to develop its best CSR strategy. Therefore, the social contribution must be adjusted in various countries to the needs of the public, for one global MNE, it can have several different CSR missions in different countries. We concluded 4 assumptions, the first one is mainly that MNEs can easily adjust their corporate social responsibility (CSR) in a particular host country to provide the enterprise's competitive advantage and minimise risk, and this strategic activity can also bring substantial benefits to the MNEs. The second one claims One of the important issues that foreign subsidiaries of multinational companies always face when entering the host country is foreign responsibility (LOF). Multinational companies can demonstrate their social commitment to the host country by effectively adapting to their corporate social responsibility (CSR). A specific host country, thereby enhancing its social legitimacy and overcoming foreign liability (LOF). (Campbell). The third assumption is that In a specific host country, MNEs should effectively adjust their corporate social responsibility (CSR) to lay a basis for the rapid growth of enterprises in this specific host country, which is more appropriate because successful strategic management of corporate social responsibility (CSR) decreases the probability that MNEs will experience public crises. These three assumptions are
all positive. The fourth is negative, which asserts MNEs would have significant
economic implications for the organisation, as they will not be able to efficiently
adjust their corporate social responsibility (CSR) in a particular host country. D&G,
which in China has not been able to adapt its company social responsibility (CSR)
effectively, has unexpectedly put the popular luxury brand into line all of the leading
Chinese online shops selling luxury goods, withdrawing D&G items in their racks and
cancelling China's long-planned big show, which has caused massive financial
losses. Our findings concluded that adaptation to CSR plays an especially important
role in the future of MNEs. MNEs should not only consider doing good for
companies, but also avoiding doing bad. In terms of limitations, prior research on
the topic is lacking and includes only secondary sources. For the period 1999 to
2015 the conclusions of the research paper are based on previous CSR issues as not
many studies have occurred over the past five years, while we have only tried to use
trustworthy data, there are not enough comprehensive details available. Most of the
CSR studies examine their CSR priorities briefly, and no clear evidence is available
for concrete examples or topics. The reports identify even the potential plans, the
positive results so far, but do not answer the CSR problems or concerns of the
current business.

Limitations:

Because the steps required to complete a whole ‘grounded theory’ are way too
complex, we simply performed some of them, or even more we just roughly imitated
the ‘grounded theory’. We have so much to improve on this strategy like larger
databases and more scientific coding. And we cannot guarantee the correctness of
these theories, even if there are some examples to verify it.

The research lacks prior research studies on the topic and includes secondary
sources only. The research paper findings are based on previous CSR issues for the
period 1999 to 2016 as there are not a lot of study cases from the last 5 years. The
cases may be considered outdated but the consequences of them are until 2019.
Although we tried to use only reliable data, there is a lack of available detailed data.
Most of the CSR reports are briefly reviewing their CSR goals, and there is no clear
evidence of concrete examples or topics. The reports are also describing the future
plans, the good outcome so far but don't provide current company’s CSR issues or
concerns. The access to previous CSR issues are mainly discussed by specialists
and not by the MNEs itself. There are cases in which the MNEs are denying the
accusations even with clear evidence. We do not have any evidence of their position
statements apart from Volkswagen, who admitted completely the responsibility of
the scandal.
Appendices:

Appendix A

(Bell, Bryman & Harley, 2019)

Appendix B

<table>
<thead>
<tr>
<th></th>
<th>Coca Cola</th>
<th>Walmart</th>
<th>Apple</th>
<th>Volksvage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competitive advantage</td>
<td>Exist</td>
<td>Exist</td>
<td>Exist</td>
<td>In doubt</td>
</tr>
<tr>
<td>Social commitment</td>
<td>Lack (India)</td>
<td>Common</td>
<td>Common (China)</td>
<td>Lack</td>
</tr>
<tr>
<td>The degree of rapid expansion</td>
<td>High</td>
<td>High</td>
<td>High</td>
<td>Middle</td>
</tr>
<tr>
<td>CSR performance in different host countries</td>
<td>Common (India)</td>
<td>No Good (Bangladesh)</td>
<td>Common (China)</td>
<td>Depends</td>
</tr>
</tbody>
</table>

Appendix C

(Ben Janse, 2020)
Appendix D

(John Dudovskiy, 2015)

Appendix E

(S. Prakash Sethi, 2013)
References


