

Dissertation

Managing Multinational Corporations in a Changing World Order: Institutional Pressures, Ethical Principles and Social Responsibility

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Human rights violations in global supply chains, harmful greenhouse gas emissions, plastic waste, child labor, ... – the growing public concern for the impact of international business activities on society and the environment requires multinational corporations (MNCs) to take on various responsibilities. These societal demands for more corporate responsibility are becoming increasingly codified, for example through new legislation such as supply chain due diligence laws. In addition, MNCs must navigate a complex political environment with increasingly ambiguous and, at times, irreconcilable demands. I analyze how these developments translate into institutional pressures and how these pressures impact the behaviors and strategies of MNCs.

BIG QUESTION

How do multinational corporations and institutions interact to tackle today's major social and environmental issues?

INTRODUCTION

The growing public concern for the conditions under which global products are made and the impact of international business (IB) activities on the environment have increased the expectations towards MNCs to take on additional responsibilities. One example is supply chain due diligence laws, which hold MNCs accountable for working conditions not only in their home, but also in their host countries. MNCs are therefore challenged to pass on corporate social responsibility (CSR) practices to their suppliers. These changes are examples of the translation of previously implicit and soft norms into binding regulatory measures that can be legally sanctioned.

Recent developments show governments' capability and willingness to regulate IB activities more rigorously, for example through export controls and restrictions for foreign direct investment (Meyer & Li, 2022). As illustrated by the Russian war against Ukraine, multilateral dissent on norms and values can cause immediate and drastic economic measures, such as sanctions. Simultaneously, such changes can act as accelerators for other social goals. For example, many countries, such as Germany, were forced to substitute Russian

energy imports with other energy sources, thus accelerating the transition to green energy and e-mobility.

As these examples illustrate, governments and other institutional actors are applying new forms of institutional pressures on MNCs to make them contribute to the resolution of global challenges. Institutional actors' pressures differ from country to country, which makes it difficult for MNCs to address them all at the same time. For example, while some countries face power shortages and rely on coal as an energy source, others put pressure on MNCs to transition towards sustainable energy sources, e.g., using emissions standards. The increasing formalization of MNCs' responsibilities, bilateral and multilateral political conflicts, and the internationally diverging management of global crises therefore pose major challenges for MNCs.

This dissertation explores different aspects of these developments and investigates them from an IB perspective. It consists of four individual studies (see [Table 1](#)). The overarching theme is the examination of institutional pressures and how they impact MNC outcomes at the intersection of business and corporate responsibility. I take the diversity of institutional pressures across countries into account and shed light on phenomena that are, as yet, insufficiently understood in the IB literature, such as sanctions (Meyer, Fang, Panibratov, Peng, & Gaur, 2023) and CSR in supply chains (Marano & Kostova, 2016). An IB perspective is useful here because it helps us to understand how MNCs make decisions in the face of ambiguity and conflicting pressures.

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Table 1. Chapter overview, methods, and key insights

	Chapter 1	Chapter 2	Chapter 3	Chapter 4
Title	Institutional friction and moral dilemmas in multinational corporations: An internal and external legitimacy perspective	What drives the dissemination of CSR practices in global value chains? An institutional and psychological perspective	Economic sanctions and market exit strategies of MNCs in Russia. An institutional theory perspective	How do disruptive innovations change CSR agendas? An exploratory study in the automotive industry
Objective	Conceptualizing and resolving moral dilemmas that result from institutional friction	Emphasis on the interplay of managerial cognition and institutional factors and their meaning for corporate responsibility	Importance of institutional pressures for market exit decisions	Emphasis on institutional change and how it impacts MNCs' corporate responsibility
Theoretical strands	Neo-institutionalism, institution-based view	Institutional work	Institutional economics	Neo-institutionalism, institutional work
Phenomenon	Legitimacy	Corporate social responsibility in global value chains	Market exit	Corporate social responsibility reporting
Level of analysis	National and organizational	National and individual	National and organizational	National, industry and organizational
Method	Conceptual study	Confirmatory moderated linear regression analysis	Confirmatory moderated binomial regression analysis	Exploratory qualitative analysis

Major world-wide problems such as global warming can only be addressed by country-spanning solutions. We therefore need to focus on phenomena-driven perspectives in IB research (Buckley, Doh, & Benischke, 2017). Moreover, we need to reflect on the role of MNCs in the resolution of these challenges and give them clear guidance on their responsibilities.

STUDY 1: INSTITUTIONAL FRICTION AND MORAL DILEMMAS IN MULTINATIONAL CORPORATIONS: AN INTERNAL AND EXTERNAL LEGITIMACY PERSPECTIVE

When companies do business in various countries, they are confronted with different regulations, norms, and cultures. While these differences can hinder business activities, for example, due to a lack of local knowledge, they can also be leveraged to gain strategic advantages, for example, through arbitrage. Prior studies have focused on how MNCs can overcome differences in institutions and adapt to the local environment. However, in many instances, these differences cannot be bridged. For example, can an MNC legitimately contribute to the establishment of new coal mines overseas when coal is banned in its home country?

In this conceptual study, I argue that MNCs are subject to three imperatives: institutional friction between the home and host countries, economic market pressure from global competition, and firms' own principles that protect their internal legitimacy. Based on this argument, I derive eight strategies (see [Table 2](#)). Institutional friction determines the amount of dissimilarity between home and host country. It determines how severe a strategic reaction will be. For example, negotiating is a less severe strategy than

leaving. High opportunity costs indicate a lack of alternatives to substitute the business in the host country, thus enhancing the necessity to accommodate host country institutions. Adherence to principles determines the degree to which accommodating host country institutions is internally legitimate. For example, endorsing host country institutions requires a higher degree of abandoning own principles than compromising. The study contributes to the literature on MNC institutional work and the institution-based view by demonstrating how MNCs can negotiate their legitimacy across different institutional contexts.

STUDY 2: WHAT DRIVES THE DISSEMINATION OF CSR PRACTICES IN GLOBAL VALUE CHAINS? AN INSTITUTIONAL AND PSYCHOLOGICAL PERSPECTIVE

In my second study, I focus on how MNCs implement CSR along their global value chains (GVCs). According to institutional theory, professionals such as GVC managers are creators, disruptors and maintainers of institutions. This means that they can help by implementing practices in the long term and ensuring that these practices become new standards. In GVCs, a major challenge is that buyers and suppliers operate in different institutional environments. For example, the local legal requirements, norms, and cultural expectations for CSR differ from one country to another. In addition, GVC managers can have different motivations for engaging in CSR. For example, while buyers might have professional advantages through the implementation of CSR, such as bonuses, suppliers often lack such incentives. This study surveys 201 GVC managers in

Table 2. Determinants and strategies

Institutional friction	Opportunity costs	Adherence to principles	Strategy
low	low	weak	ignore
low	high	weak	comply
low	low	strong	negotiate
low	high	strong	compromise
high	low	weak	imitate
high	high	weak	endorse
high	low	strong	leave
high	high	strong	restrain

buying and supplying firms to study their psychological motivations to engage in CSR along the GVC.

The results suggest that buyers and suppliers have different motivations to engage in CSR, associated with their different positions within the GVC. In addition, the results suggest that buyers' institutional distance from their suppliers affects their intention to impose CSR practices on them. Surprisingly, equivalence testing did not yield evidence that institutional distance affects the relationship between psychological motivations and CSR.

A key takeaway from this study is that interpersonal relationships can help foster CSR in GVCs. Buyers should make an effort to understand the local institutional context, as well as the individual moral concerns of their suppliers. Moreover, dialogue with suppliers and especially sub-suppliers is an important tool. The study contributes to the scarce IB literature on how MNCs impose CSR on their suppliers (e.g., Buckley & Strange, 2015).

STUDY 3: ECONOMIC SANCTIONS AND MARKET EXIT STRATEGIES OF MNCS IN RUSSIA: AN INSTITUTIONAL THEORY PERSPECTIVE

In my third study, I analyze how MNCs react to changes in the institutional environment resulting from shifts in geopolitical dynamics. While prior research has discussed the legal, political and economic aspects of sanctions, this study takes an IB perspective and analyzes the impact of sanctions on MNCs' market exit decisions.

I use a dataset of 929 MNCs doing business in Russia, which contains information on market exit decisions as of November 2022, and relevant accounting data. To predict market exit, I look at informal institutions (political affinity and military threat), formal institutions (sanctions), and several firm and industry characteristics. In terms of informal institutions, the results suggest that MNCs from countries that are more politically aligned with Russia tend to stay, while MNCs from countries that experience a military threat from Russia are more likely to exit the market. In both cases, the likelihood of market exit increases when the home country imposes sanctions.

The results also suggest that MNCs base their decision of market exit on the risk of reputational damages from continuing operations in Russia, the size of their business op-

portunity in the Russian market, and their non-recoverable investments in the Russian market. A moderation analysis suggests that the relationship between these factors and the likelihood of market exit is not affected by whether or not the home country has imposed sanctions.

This study contributes to a better understanding of why some MNCs have remained active in Russia. The study contributes to the scarce IB literature on sanctions investigating the antecedents of MNCs' reactions (Meyer & Thein, 2014).

STUDY 4: HOW DO DISRUPTIVE INNOVATIONS CHANGE CSR AGENDAS? AN EXPLORATORY STUDY IN THE AUTOMOTIVE INDUSTRY

The final study of my dissertation sheds light on the interplay between institutions and MNCs. It is a qualitative analysis of CSR reporting in the automotive industry, in light of the transition towards e-mobility.

The study suggests that CSR is an important tool for MNCs to legitimize business models across countries. The transition towards e-mobility has led to more CSR activities that aim to reduce greenhouse gas emissions (*avoiding harm CSR*). Simultaneously, additional social and environmental activities (*doing good CSR*) seem to decrease. Some MNCs implement *doing good CSR* to legitimize harmful business activities. Moreover, *doing good CSR* can be used to fill institutional voids in host countries. For example, the funding of schools can be an effective way to combat child labor. The results of this study suggest that we need to discuss the role of the MNC in the fulfillment of environmental and social goals. The transition to a more sustainable society can only succeed if MNCs and institutional actors such as legislators work together.

TOWARDS A BETTER UNDERSTANDING OF CONTEXT IN THE STUDY OF MNCS AND INSTITUTIONS

My dissertation shows that a combination of different theoretical perspectives, as well as methodological pluralism can shed new light on current IB phenomena. The theoretical stance has important implications for the underlying

mechanisms that are assumed. The phenomena I analyze highlight that MNCs do not exclusively follow legitimacy concerns or cost imperatives, but also take normative and moral aspects into account. Moreover, the applicability of theoretical lenses is heavily context-dependent. While some strands of institutional theory, such as institutional work, highlight MNCs as active players who can avoid, manipulate, or ignore institutional pressures, their strategic choices may be considerably limited in autocracies such as China or Russia.

From a methodological perspective, a key insight is that the choice of measures for institutions should also be context-sensitive and depend on the phenomenon that is analyzed. For example, research on institutional influences on MNC market exit has often arrived at inconclusive results. I suggest that this may be because IB research has largely focused on host country institutions, often using indices as measures for institutions. However, especially in cases of conflict between the home and host country, it is necessary to utilize context-sensitive measures for institutions that account for the relationship between the home and host country (see chapters 1 and 3). At the same time, measures that are not context-specific, such as indices, may be particularly helpful when researchers are interested in uncovering underlying mechanisms, such as interactions between institutional and individual-level factors (see chapter 2). My dissertation shows that context-dependent considerations are helpful in determining the relevant institutional influences and in choosing suitable constructs and measures. In addition to inquiring further when specific measures should be used, I also suggest that we enter into a discussion of the “smallest effect size of interest” for in-

stitutional influences. Given the extremely large variety of measures that have been used for formal and informal institutions, bilateral institutional relationships, institutional distances, etc., I suggest further reflections on the reproducibility and replicability of studies using institutional theory.

Finally, policy makers should be aware that ambiguity in legislation concerning environmental and social goals (e.g., acts pertaining to supply chains and modern slavery) allows MNCs to offshore harmful activities to other countries. Extraterritorial responsibilities can only be implemented effectively if the institutional infrastructure, i.e., support and control, is in place. More dialogue and collective action between institutional actors and MNCs are therefore needed to find global solutions to global problems.

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ABOUT THE AUTHOR

Laura Kirste received her doctorate from Friedrich-Alexander-Universität (FAU) Erlangen-Nürnberg, where she currently works as a post-doctoral researcher. Her research is driven by the question how multinational corporations can make meaningful contributions to society. In addition, Laura teaches intercultural management and research methods courses, and is responsible for the international business master’s program at FAU, advising students from over 40 nationalities.

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