ARGUMENTS FOR CSR-BASED SUSTAINABLE COMPETITIVENESS OF MULTINATIONALS IN EMERGING MARKETS (PART II)

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Abstract:
The (two parts of the) paper aims to bring into discussion the case of CSR-based sustainable competitiveness of multinationals in emerging market economies, through an interdisciplinary approach (international business and strategic management) applied to a multilevel analysis (country and company). The main conclusion of the paper is that, despite the circumstances that nowadays characterize international business in general and the emerging market economies in particular, such a transformation in business models is not only desirable, but mandatory. Key arguments in favor of this assumption are found (both theoretically and empirically) at global/general level and, as well, at the emerging market economies' level.

Key words: *sustainable competitiveness, corporate social responsibility, multinationals, emerging market economies*

1. Empirical evidences and findings form emerging markets – identifying the gaps

The emerging market economies are more and more in-focus subject for the academic literature, (business, governmental and nongovernmental) practitioners, and global institutions. As the global architecture is dramatically changing, the role and contribution of these countries to the global economy and growth, their (common and/or unique) development paths, and the particularities of multinationals – originated or hosted within them – are increasingly analyzed and discussed.

As Luo (2002) emphasized, "an emerging market can be defined as a country in which its national economy growths rapidly, its industry is structurally changing, its market is promising but volatile, its regulatory framework favors economic liberalization and the adoption of a free-market system, and its government is reducing bureaucratic and administrative control over business activities" (Luo, 2002); or, in less words, “emerging economies are low-income, rapid-growth countries using economic liberalization as their primary engine of growth” (Hoskisson et al., 2000).

While is a wide consensus (since more than a decade ago) that “emerging markets constitute the major growth opportunity in the evolving world economic order” (Arnold and Quelch, 1998) – and the empirical evidences confirm this statement – because “for the past half-decade, the emerging markets and developing economies have led the world’s recovery” (Shinohara, 2013) – it is also true that “over time, as the emerging market countries become wealthier and technologically more sophisticated, they will gradually lose the advantages of starting from behind. Even with continued strong policies, their growth will slow as returns to capital investments diminish and the most profitable opportunities are exploited” (Bernanke, 2011). So, they also need new business models in order to succeed.

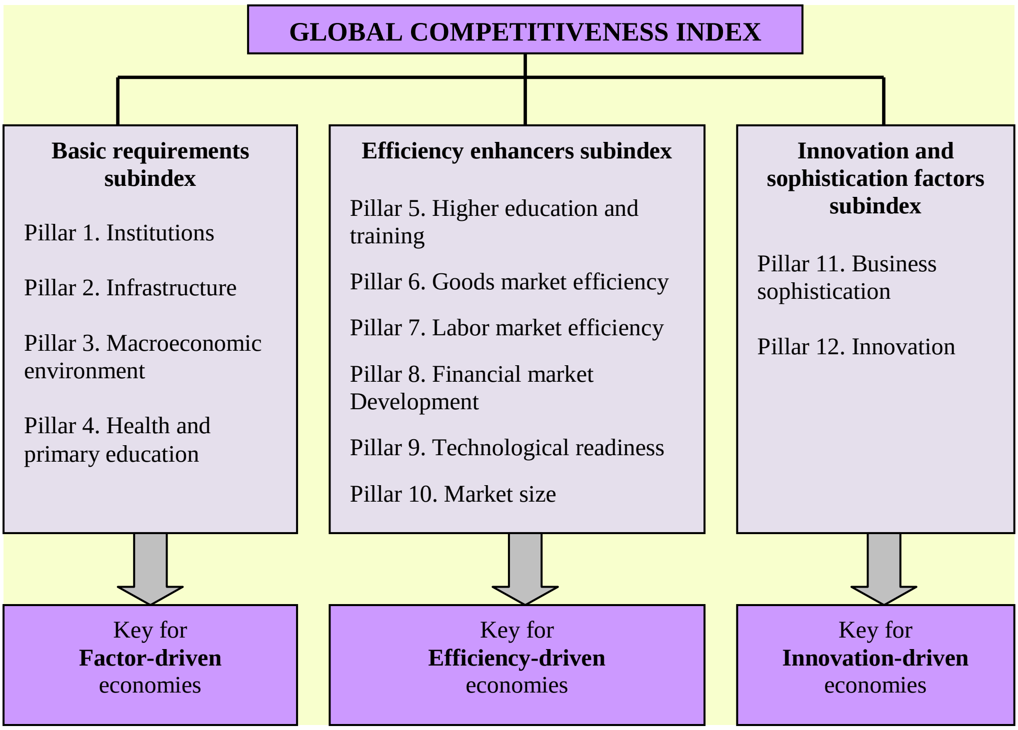
1.1. Competitiveness and development in emerging markets

Although the scientific literature and the international organizations operating in the field of international business have delivered a lot of different approaches (based on specific features, dynamics and trends), for usability reasons we stop at a recent IMF (2013) classification; it sets forth within the emerging market economies category the following countries: Argentina, Brazil, Bulgaria, Chile, China, Colombia, Hungary, India, Indonesia, Latvia, Lithuania, Malaysia, Mexico, Peru, Philippines, Poland, Romania, Russia, South Africa, Thailand, Turkey, Ukraine, Venezuela. Thus, for the following analysis, we will use this benchmark for country grouping.

Sustainable development and competitiveness are both crucial for these countries; that is why WEF, when develops its annual Global Competitiveness Report (WEF, 2012) analyzes and compares national competitiveness in relationship with development (Figure 1).

“In line with the economic theory of stage of development” it ranks countries in terms of national competitiveness by taking into account their stage of development, arguing that “a more competitive economy is one that is likely to sustain growth. The concept of competitiveness thus involves static and dynamic components” (WEF, 2012). When analyzing the emerging market economies’ stages of development and their respective rankings considering the global competitiveness index (GCI) – as they were emphasized by WEF (Table 1), there are some very interesting evidences and findings that must be emphasized here – as fundamentals for new business models focusing on CSR:

Figure 1 The Global Competitiveness Index framework



(Source: WEF, 2012)

(1). There is a great variety between these countries – resulted from their stage of development (established based on two main criteria: the level of GDP per capita at market exchange rates, adjusted by the share of exports of mineral goods in total exports): from a total of 138 countries, the global rankings of the emerging market economies – in terms of their competitiveness – varies from 25 (Malaysia) to 126 (Venezuela);

(2). No country is considered to have an innovation-driven economy (stage where "companies must compete by producing new and different goods through new technologies and/or the most sophisticated production processes or business models"); eleven countries are in transition from stage 2 (efficiency-driven economies – stage where "countries must begin to develop more efficient production processes and increase product quality because wages have risen and they cannot increase prices") to stage 3; nine countries are defined by an efficiency-driven economy; two countries are in transition from stage 1 (factor-driven economies – stage where companies compete "on the basis of price and sell basic products or commodities, with their low productivity reflected in low wages") to stage 2; and one country is in stage 1 of development (WEF, 2012).

Table 1. Emerging Market Economies at each stage of development and their respective ranking considering GCI

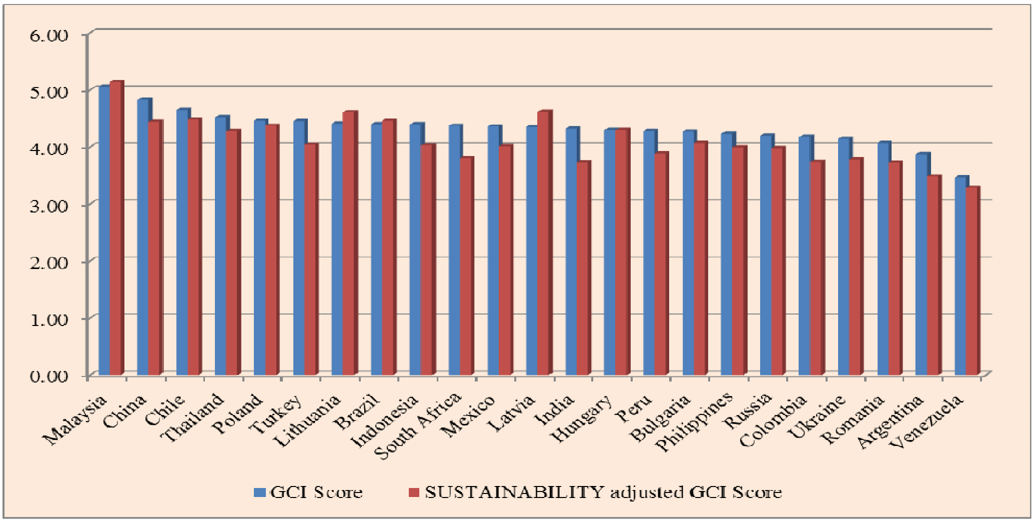
Stage 1: Factor-driven		*Transition from stage 1 to stage 2*		*Stage 2: Efficiency-driven*		*Transition from stage 2 to stage 3*	
Country	*Rank*	*Country*	*Rank*	*Country*	*Rank*	*Country*	*Rank*
India	59	Philippines	65	Bulgaria	62	Argentina	94
		Venezuela	126	China	29	Brazil	48
				Colombia	69	Chile	33
				Indonesia	50	Hungary	60
				Peru	61	Latvia	55
				Romania	78	Lithuania	45
				South Africa	52	Malaysia	25
				Thailand	38	Mexico	53
				Ukraine	73	Poland	41
						Russia	67
						Turkey	43

(Source: WEF, 2012)

As mentioned earlier, consistent with the imperative of sustainability, WEF firstly introduced in 2012 the concept of sustainable competitiveness; so, it has developed a methodology and has made corrections of the GCI accordingly: “the final overall sustainability-adjusted GCI is an average of the two sustainability-adjusted indexes (Annex 1): the social sustainability-adjusted GCI and the environmental sustainability-adjusted GCI” (WEF, 2012). Thus, sustainable competitiveness “aims to gauge not only whether a country has the potential to be prosperous and to grow over the medium and long term, but also whether the national development process contributes to the kind of society in which we want to live” (WEF, 2012).

When applying the conceptual framework of sustainable competitiveness to the analyzed countries, the results show that (Figure 2 and Annex 2) from all the 23 emerging market economies, the GCI score changes by +5% to +15% for one country (Latvia); it remains stable between +5% and -5% for 7 countries (Malaysia, Chile, Poland, Lithuania, Brazil, Hungary, Bulgaria); and it changes by -5% to -15% for all the other 15 countries (Argentina, China, Colombia, India, Indonesia, Mexico, Peru, Philippines, Romania, Russia, South Africa, Thailand, Turkey, Ukraine, Venezuela). So, there is plenty of room for sustainable development and competitiveness within these countries.

Figure 2. Adjustment to the GCI scores by sustainability indicators



(Source: WEF, 2012)

1.2. Multinationals originated and/or hosted in/by emerging markets

It is undeniable that multinationals, being both cause and effect of the globalization process, are the engine of globalization as it is today; that is why Gilpin (2004) even refers to an "age of multinational" as long as "multinational corporations have an overwhelming presence in the global economy" (Gilpin, 2004). But, which is of more interest (in this context) is the growing impact of multinationals originated and/or hosted in/by emerging market economies; they significantly contribute to the nowadays geo-economy of complexity – characterized by the following features: globalization envisages all the entities; the interconnections between all the entities may have very different forms; and high uncertainty (Mayrhofer and Urban, 2011).

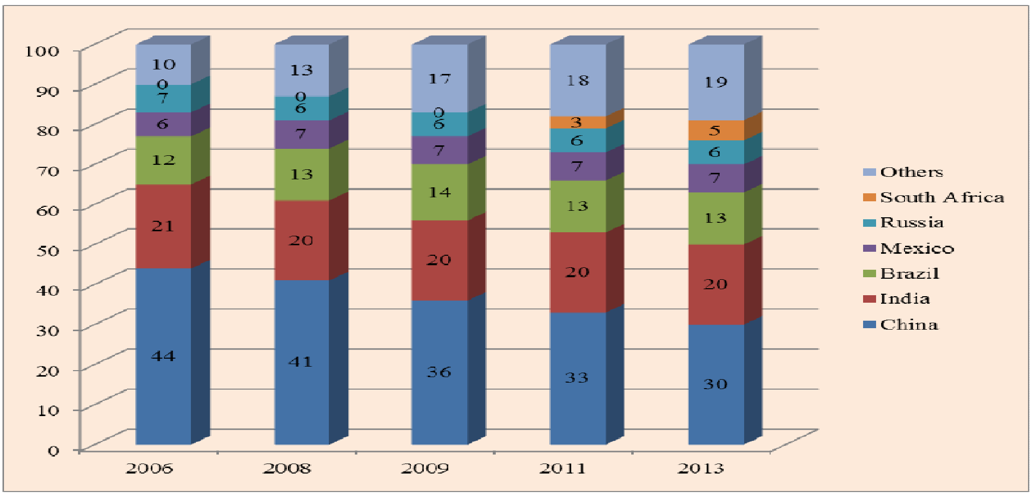
Fortune Global 500 (FG500) represents the generally accepted unit of analysis for multinationals, because "the world's largest 500 multinational enterprises (MNEs) dominate international business. They account for 90 per cent of the world's stock of foreign direct investments (FDI) and they also undertake over half of the world's trade" (Rugman and Collinson, 2009).

If considering 2013 Fortune Global 500, there are 122 multinationals originated into emerging market economies (one from: Columbia, Hungary, Malaysia, Poland, Thailand, Turkey, and Venezuela; seven form Russia; eight form India and Brazil; eighty-nine from China) – which represents 24.4% from the total number of FG500. If comparing this situation with the 2006 FG500 – when 44 multinationals (representing 8.8% from the total number of FG500) – were originated into emerging market economies, we can see a 277.27% increase (http://money.cnn.com/magazines/fortune/global500). These global players, leaded by Chinese multinationals (89 in 2013 comparative to 20 in 2006) – even though their relative limited power (in terms of revenues and profits) comparative to the Triad ones – represent real forces shaping the global architecture.

BCG Global Challengers is another referential for multinationals form emerging market economies; as the Boston Consulting Group expresses it, ”the 2013 BCG global challengers are 100 companies from rapidly developing economies (RDEs) that are both growing and globalizing quickly”. In order for the companies to appear into this ranking, they were selected in accordance with a specific methodology, which included quantitative as well as qualitative criteria; among those: companies needed to have annual revenues of at least $ 1 billion; overseas revenues either totalized 10 per cent of total revenue or $500 million; for export-oriented industries the companies needed to possess overseas assets of at least 10 per-cent of total assets or $500 million (https://www.bcgperspectives.com/).

Analyzing the 2013 BCG global challengers comparative to 2006 BCG global challengers in terms of country coverage (Figure 3), it results: in 2013, the global challengers come from 17 countries – apart from those which are present in the chart, there are: 4 companies from Thailand; 3 from Turkey; 2 from Chile, Indonesia and Malaysia; and 1 from Argentina and Colombia; in 2006 were present only 10 countries, with the following distribution of companies: 41 from China; 21 from India; 12 from Brazil; 7 from Russia; 6 from Mexico, 2 from Malaysia and Thailand; and 1 from Indonesia.

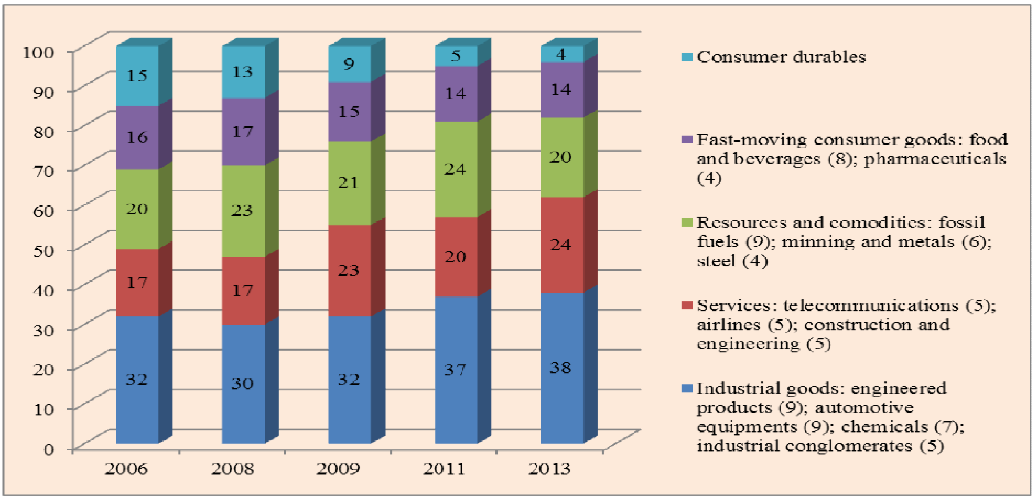
Figure 3. Number of BCG Global Challengers by countries



(Source: BCG, 2013)

When considering the industries BCG global challengers come from (Figure 4), “the span of industries represented on the 2013 BCG global challengers list is widening. (…) But the list is still heavy on industrial-goods companies (38) and resource and commodity companies (20). (…) The services sector, with 24 entries, is still underrepresented” (https://www.bcgperspectives.com/).

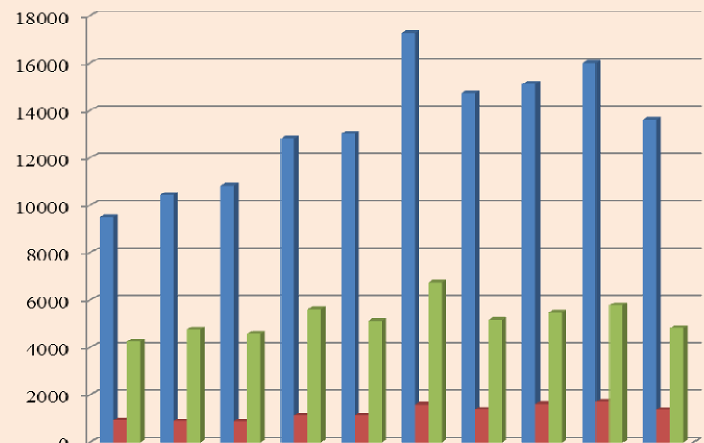
Figure 4. Number of BCG Global Challengers by industries



(Source: BCG, 2013)

UNCTAD, at its turn, through its annual World Investment Report and its annexes (WIR, 2013), also puts on the highlights the multinationals originated and/or hosted in/by emerging markets. The most recent data (Figure 5, Annex 3 and Annex 4) illustrate the dynamics and trends, and the distribution between countries, of the Greenfield FDI projects – as indicators of multinationals populating emerging market economies (those present into the above mentioned IMF list).

Figure 5. Number of greenfield FDI projects, by source and by destination



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
World	9514	10434	10833	12836	13021	17281	14744	15131	16009	13628
Source: Emerging economies	937	894	883	1137	1139	1590	1389	1614	1714	1381
Destination: Emerging economies	4255	4760	4588	5630	5132	6741	5173	5473	5787	4816

(Source: UNCTAD, 2013)

As Figure 5 reveals, from all the 13,628 greenfield FDI projects developed in 2012, 10.13% have an emerging market economy as source, while 35.34% of them have an emerging market economy as destination. The dynamics are generally consistent with the general trend followed by greenfield FDI projects since the last 10 years. When talking about the distribution of greenfield FDI projects in 2012 among countries: China (317), India (293), Russia (142) and South Africa (105) count for 62.05% of the greenfield FDI projects having an emerging market economy as source, while China (1085), India (744), Brazil (459), Russia (319), Poland (296), Mexico (254) and Romania (200) count for 69.70% of the greenfield FDI projects having an emerging market economy as destination.

Bringing together both the countries and the industries that are present on these global rankings, one can easily notice the impetuous dynamics (at country level) on one hand, and the domains of potential improvements (at industry level), on the other hand.

2. Arguments in favor of CSR–based competitiveness of multinationals – at emerging market economies' level

In accordance with the above highlighted dynamics and data, the mainly arguments in favor of CSR-based competitiveness of multinationals at emerging market economies' level result – both in terms of needs and possible means – from:

Firstly, the imperative need for sustainable development and competitiveness of the emerging market economies; as the WEF findings emphasized, even for those countries whose competitiveness rankings are relatively high, their competitiveness is mostly based on factors – and less on efficiency; on the other hand, none of these countries is placed on the third stage of development, none is an innovation-driven economy. These features are rather to be correlated with the absence (or a low level, at best) of CSR activities within companies (multinationals and/or domestic); on the contrary, the global search for competitiveness is accompanied by the search for more profits and less accountability – if possible. More than that, among the most problematic factors for doing business, the same WEF report mentions (with relatively high scores for most of the analyzed countries): corruption, poor work ethic in national labor force, insufficient capacity to innovate, crime and theft and so on – aspects that proper business models integrating business ethics and CSR can substantially improve.

Secondly, the emergence and the growing impact of the "global challengers" – as any other multinational, they operate under the pressure of "at least four different types of norms relevant to MNEs – which may be similar in contents, but can also diverge: those originating from international treaties, declarations and conventions, at the intergovernmental level; those that are part of a 'market morality', 'international' standards adhered to by multiple MNEs, usually as part of industry or multi-stakeholder initiatives; those applicable in the MNEs' home country; and those applicable in the host country (Kolk, 2010). Therefore, the global challengers have to accordingly develop new business models and management strategies beyond these standards in order to differentiate themselves and to globally succeed in terms of competitiveness.

Thirdly, the solutions that the academic literature in the field of CSR offers to businesses; for instance, Archie Carroll (2004) proposed the Global Pyramid of CSR, which "provides a conceptual framework for thinking through the multitude of expectations that may fall on the MNC or global manager. It is intended to illustrate the total social responsibility of global businesses. (…) the Global CSR Pyramid suggests that the MNC should strive to: make a profit consistent with expectations for international businesses; obey the law of host countries as well as international law; be ethical in its practices, taking host-country and global standards into consideration; be a good corporate citizen, especially as defined by the host country's expectations" (Carroll, 2004). Even if most of the solutions offered by academia are originated "from abroad" and do not fully capture the need for sustainability of the emerging market economies (encouraging sometimes the minimum effort strategy toward CSR), they are good starting points for a better adapted strategy for specific needs.

Fourthly, the capturing of some idiosyncratic features of the emerging market economies, which can be integrated into CSR strategies (although the emerging market economies are very diverse and the companies operating within them have to meet different expectations). At the Ethical Corporation, Tobias Webb developed a "practical guide" of ten lessons for large companies expanding their sustainability programmes into high-growth markets: "corporate responsibility and sustainability issues are vastly different around the world; global principles with local implementation are the only way large companies can operate successfully and sustainably; the world is more left-wing than the UK and US; governments are unpredictable on sustainability issues; institutions as we know them often do not exist; stakeholders are unpredictable – issues can escalate very quickly; culture counts – local knowledge is essential; agendas are mixed, but skills, education and jobs are always number one; the greener agenda is understood and often consumers are less skeptical than in the west; get ready for a bumpy road ahead – global business = global complexity" (Webb, 2012). By having knowledge of frameworks like this one, multinationals (from developed countries) will know they "have to do things differently" than at their home, and will surpass the parochial vision on businesses more quickly.

Fifthly, the growing pressure towards more sustainability and CSR in emerging market economies – coming from the media and the civil society on one hand, but also from national and international authorities and organizations, on the other hand; those, together with the defining features of the nowadays global system – which is extremely complex and highly interconnected – will make CSR to be not an option, but mandatory – at least considering its incipient and/or basic forms. So, "companies can no longer afford to ignore their social responsibilities. (…) Times have changed. There remain company chieftains who take a Friedman-esque view, of course, but many more have made CSR a priority. Ten years ago, for instance, only about a dozen Fortune 500 companies issued a CSR or sustainability report. Now the majority does. More than 8,000 businesses around the world have signed the UN Global Compact pledging to show good global citizenship in the areas of human rights, labor standards and environmental protection. The next generation of business leaders is even more likely to prioritize CSR" (Knowledge&Wharton, 2012).

3. Conclusions

The world of international business is dramatically changing; two major dimensions of these changes, able to redefine the global architecture of tomorrow (and it only depends on each of the global actors to positively contribute to its new shape) are: (1). the increasing pressures towards sustainability – which asks for, and eventually will lead to, new strategies integrating sustainable development (at macroeconomic and supranational levels) and sustainable competitiveness – based on CSR (at firm level); (2). the growing impact of the emerging market economies and of the multinationals originated/hosted within/by them – pressured and self-motivated to integrate sustainability and CSR within their strategic decisions, in order to globally succeed.

Therefore, the new dynamics and trends that characterize the global economy, on one hand, and the new "geo-economy of complexity" they generate, on the other hand, open new research perspectives for academia (in search for sustainable business models) and new insights for businesses (in search for global competitiveness) – that need to be synergistically developed, considering both the whole (the sustainability of the global system) and its parts (the idiosyncratic features and the specific challenges in front of the global actors).

If "creating shared value" (Porter and Kramer, 2011) is the bottom line for companies, in order to reconnect them to the society – because it "involves creating economic value in a way that *also* creates value for society by addressing its needs and challenges" (Porter and Kramer, 2011), searching for CSR-based competitiveness could be the first step of the transformation process that multinationals originated in and/or hosted by emerging market economies will have to undertake – because it is easier to change attitudes and behaviors than values. The cognitive dissonance will eventually lead these companies to a deeper understanding of businesses and of their role within society and finally will emerge into the new approach of „creating shared values".

In conclusion, these times of transformations generate more complexity and challenges, but they also determine great opportunities that have to be capitalized in order for the emerging market economies to quickly catch-up through well-articulated strategies at national level and as well at company level. The role of multinationals and the experiences of the developed countries (and of the multinationals form developed countries) are useful, but they have to be adjusted to the different realities and expectations of the emerging market economies.

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