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

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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. Introduction

The recent trends in international businesses undoubtedly reveal the fast forward moving of the emerging market economies on the global arena. Multinational companies – hosted by and/or originated in these countries – are, in most of the cases, the engine behind this phenomenon. This fact is certified by UNCTAD within its 2013 World Investment Report as follows: "in 2012 – for the first time ever – developing economies absorbed more FDI than developed countries, accounting for 52 per cent of global FDI flows. (...) Developing economies also generated almost one third of global FDI outflows, continuing a steady upward trend" (UNCTAD, 2013); and it is reinforced in 2014: as regards the inflows, “developing countries maintained their lead over developed countries by a margin of more than $200 billion for the second year running.”, while “FDI by transnational corporations (TNCs) from developing countries reached $454 billion – another record high. Together with transition economies, they
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accounted for 39 per cent of global FDI outflows, compared with only 12 per cent at the beginning of the 2000s.” (UNCTAD, 2014).

On the other hand, the different pressures towards sustainable competitiveness, coming from a whole plethora of stakeholders around the globe, rise in front of the emerging market economies – and of their respective multinationals especially – a new set of opportunities and threats as regards their corporate social responsibility (CSR) related attitudes and behaviors. Thereby, the "main CSR issues for multinationals: human rights, labor relations/supply chain management, corruption, environment/sustainability, and other CSR issues (cultural imperialism, socially responsible investing, corporate governance, corporate philanthropy and community service, product and process safety)" (Sitkin and Bower, 2013) interfere, into a complex network of conditionalities, with the new realities emphasizing that "the so-called ‘developing’ world is no longer just an awkward backwater whose role in the CSR arena was at best to cause many companies in the Global North to clean up their supply chains. It is increasingly where the action is. Entire new areas of CSR, such as social innovation or social entrepreneurship have been initiated from the Global South" (Crane and Matten, 2013).

Within this framework, a large and deep transformation in business models and practices seems not only to be desirable, but mandatory for multinationals in emerging market economies. This shift will allow and favor CSR to become a defining component of the business core and to represent a solution for the global sustainable competitiveness of multinationals from emerging markets. The literature overview on the subject offers strong arguments in favor of this approach – in general, and for the business context of nowadays, governed by uncertainties, turbulence, disparities and crisis – in particular. In the same time, the empirical evidences – regarding both sustainable competitiveness, and multinationals originated in and/or hosted by emerging market economies – outline a major gap between the potential and the realities defining CSR-based competitiveness. Some new, specific arguments and discussions are brought in order to support the idea and to open new lines of approach, and finally, some conclusions are made on how to integrate it into the business models of multinationals from emerging market economies.

1. Sustainable competitiveness – an imperative for businesses

The context, both bidder and challenging, of the globalization process – which is currently carried out under the impact of a multiple and global crisis, rises in front of all the global actors which are searching for competitiveness a plethora of new determinants, significances, dimensions and consequences as regards the sustainable development and its organizational correspondent, corporate social responsibility (CSR).

Sustainable development was defined into the referential Brundtland Commission Report (1987) in terms of “development which meets the needs of current generations without compromising the ability of future generations to meet their own
needs”. As global imperative, sustainable development “is built around six vital axes: reviving growth; changing the quality of growth; meeting essential needs for jobs, energy, water and sanitation; reorienting technology and managing risk; and merging environment and economics in decision-making” (Schuurman, 2001).

Regarding the Corporate Social Responsibility, it must be emphasized that “at the core of CSR is the idea that it reflects the social imperatives and the social consequences of business success” (Matten & Moon, 2008). So, CSR is both a continuous process and a permanent result of negotiation, because “from the firm’s viewpoint, its CSR is the set of moral duties towards other social actors and towards society that the firm assumes as a result of its economic, social, political and, of course, ethical reflection on its role in society and on its relationships with those other actors. And from the external observers’ viewpoint, it is the set of moral duties that the other agents and society attribute to the firm as a consequence of the role it assumes and its relationships with those actors. In practice, then, CSR will be the result of a dialogue between the firm and its stakeholders about the obligations of the former and the expectations of the latter” (Argandona and von Weltzien Hoivik, 2009).

But the last few decades expanding and deepening of the globalization process have led to some contradictory effects: the global system has reached today an unprecedented level of economic development – materially and technologically speaking, while the same system is crossed by deep problems, discrepancies and gaps in the light of sustainable development: different access to resources and development – for individuals and organizations as well, deterioration of the general conditions regarding the natural environment and the planet’s health, global values crises, and so on (Agyeman, et al., 2003; Ortiz and Cummins, 2011).

All these adversarial realities demonstrate that business related concerns towards assuming the duties that the global economic development make at the expense of natural environment and the future of the planet were often left behind. During the last few decades, this situation has not gone unnoticed neither by the academic literature in the fields of international business and business ethics (Stokes, 1981; McKinlay and Little, 1986; Martin, 2005; Sernau, 2006; Robbins, 2010; Cusimano, 2011), nor by international entities (with global vocation) such as United Nations (UN, 2005), International Labor organization (ILO, 2013), or the World Bank (World Bank, 2013).

The most probable reason behind this kind of behavior is based on the fact that, in abstract terms, it has prevailed, for a long time, the assumption that social responsibility is a compulsion or a limitation for a company’s goals, a price to be paid; the price resulted from the conflict between the urge for profit and the (“just” moral) imperative of responsible behavior. So, Milton Friedman’s arguing (1970) was the almost perfect shield for companies against assuming CSR (despite the fact they sometimes have ignored even the premises of his theory – and the recent global crisis is the best argument for it): “there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long
as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud."

However, big companies – and especially multinationals – increasingly started to take CSR seriously, no matter the motive behind this behavior (economic and/or moral), or its engine (internal – the case of the US companies, or external – the case of EU, where the pressure came from authorities); these companies are in the vanguard of sustainable development by targeting the triple performance: economic, social and environmental (Mercier, 2004). Their main argument is based on the assumption that “seeing sustainable development as an opportunity rather than as a burden has proved to be a possible source of competitive advantage” (Oprea, 2005). And this is because “the competitiveness of a company is currently determined, among other factors, by socially responsible management, by environment-friendly technology, by philanthropic and charitable initiatives, by educational support for the members of the community, by the monitoring of the suppliers’ respect for the existing market, civil, and environmental regulations, by the ethical transparent corporate management of the given firm” (Korka, 2005).

Despite these encouraging reasoning and dynamics – which are based on empirical evidences and are outlined by the academic literature, that emphasizes on the long term competitive advantage and competitiveness this kind of approach brings with it – some important bottlenecks still persist: CSR concept continues to remain quite diffuse and CSR practice is still very heterogeneous, contradictory and insufficiently assumed; that is why a lot of articles and studies are focusing on: identifying, bringing together and analyzing the most relevant definition of CSR (Dahlsrud, 2008); grouping and structuring the most important theoretical approaches (Garriga and Mele, 2004); categorizing CSR practical approaches (Snider et al., 2003); reuniting into an inedited ranking the most relevant approaches in the field (Visser, 2009).

As regards the particular case of international businesses and the behaviors towards CSR of the multinationals originated and/or hosted in/by emerging and developing market economies, the realities are much more complex, and their coverage within the academic literature is more recent and fragmented, while less developed and empirically grounded. These studies are trying: to analyze the relationships between CSR, on one hand, and development and competitiveness, on the other hand (Letkenhorst, 2004; Porter and Kramer, 2006); to establish the proximate genus and to identify the specific difference for CSR in the case of multinationals in developed countries and emerging market economies (Gugler and Shi, 2009; Jamali, 2010; Hah and Freeman, 2013); to design the specific operating framework of multinationals and define the particular contextual and legal constraints in terms of CSR (Kolk, 2010); to reject the dichotomous vision and develop an integrated one by defining multinationals as actors that “can be both socially responsible and irresponsible simultaneously” (Strike et al., 2006); to argue that, “aside from any specific programmes on CSR, there is much cause for optimism as regards the
contribution of multinationals to sustainable development by the transfer of technology and managerial best practices” (Dunning and Lundan, 2008).

The new normality of nowadays – characterized by pronounced turbulence and high chaos (Kotler and Caslione, 2009) – determines a genuine discontinuity era (full of new challenges), which has the vocation to reconfigure the global architecture – or, at least, the way that society (and its global agents: individuals, companies, states) were used to perceive it and report to it since recently. It seems to be more like a turning point or a transition to another phase (Ogrean and Herciu, 2011). A new phase, where competitiveness (as an indicator of performance) will still be a moving target, but the attitude towards it, and the consequent behavior will have to change: from a dangerous obsession (as Paul Krugman have defined competitiveness within one of his referential articles in 1994), competitiveness will have to become “a welfare creating ability with positive externalities” (Aiginger, 2006) on the firm level, on the regional level, and on the national level as well.

As regards the national level, the World Economic Forum (WEF – a well-known and globally recognized landmark for national competitiveness, which first introduced its index of competitiveness in 1979), based on the fact that “social and environmental sustainability have become increasingly significant components of, and complements to, economic performance” has developed (for the first time – within its Global Competitiveness Report 2012-2013) a conceptual framework for measuring sustainable competitiveness and accordingly adjusted the global competitiveness index (GCI) country scores by sustainability indicators (WEF, 2012).

Considering that “the challenge and vision of responsible competitiveness is to embed social and environmental goals and outcomes in the very heart of competitiveness” (Zadek, 2006), and in order for this paradigmatic change to become operational in terms of business models – for the companies looking for sustainable (global) competitiveness, its fundamentals will have to be found both within the companies’ values system and within the configuration of their own determinants of competitive advantage, because:

(a). based on their values, companies develop, through strategies, their specific attitudes and behaviors. CSR values optimally embeds the premises of a company’s sustainability which “is focused on all the aspects that allow a company to extend its existence as much as possible; it means the recognition of the social, economic, environmental and ethical factors that influence a company’s strategy (…); it is looking for a holistic strategy in order to maximize on the long run the fundamental value of the companies, while optimizing the performance and value of the company on the short and medium term – but without ever compromising the long run value” (Kotler and Caslione, 2009).

(b). to create and maintain competitive advantage (which is founded in anything that a company does especially well comparative to its competitors and which is significant/relevant for clients) is essential for the long term success of any organization. So, a company “must strive to achieve sustained competitive advantage by: (1). continually adapting to changes in external trends and events and internal
capabilities, competencies, and resources; and by (2). effectively formulating, implementing, and evaluating strategies that capitalize upon those factors” (David, 2005). From this perspective, CSR represents an authentic source of sustainable competitive advantage (being an intangible asset, and a valuable, rare, difficult to imitate organizational resource).

Thereby, judging a firm’s competitiveness by enlarging the view – both in space and in time – could be the right answer to the sustainability issue of competitiveness, and the best solution to the aforementioned gaps and disparities. But this has to be a one-way behavior for all the global agents (even though their particular choices would be different). The complex and networked economy we are living in offer both the appropriate opportunities and challenges in order to embrace this perceptual and behavioral transformation. It will only depend on (all the) firms to deliver the expected synergetic effects and to overcome the obsolete win-lose approach of business.

2. Facts, findings and reasons in favor of CSR-based competitiveness – at global/general level

One may say that the circumstances that nowadays characterize international business in general, and the emerging market economies in particular – placed under the auspices and the impacts of the global crises and recession – do not seem to be the most favorable ones in order to assume such a transformation in business models – because they are likely to amplify the complex bottleneck that defines emerging market economies and the multinationals originated and/or hosted within them – from the perspective of sustainable competitiveness. This may be true – if taken into consideration that, generally and traditionally speaking, the (sustainable) competitiveness of multinationals was achieved at the expense of sustainability in emerging and developing countries, and this is especially the case when an entire industry “forces” companies towards embracing such an approach (Johnson, 2012; Bilton, 2013).

But this kind of behavior is no longer viable (nor sustainable), because the old (theoretical, as well as business) models no longer meet the new challenges: beside the increasing recognition of the fact that “one size doesn’t fit all” in terms of CSR related strategies (Argandona and von Weltzien Hoivik, 2009), the challenges of globality – as process of “competing with everyone from everywhere for everything”, which is “mainly fuelled by a set of business competitors that are based not in the developed world but in the rapidly developing economies” (Sirkin et al., 2008) – call for new analytic frameworks and pragmatic solutions.

Therefore, these complex and turbulent circumstances can also be seen as a great opportunity for sustainable competitiveness and development – which have to be capitalized by companies (including multinationals) in emerging market economies. The main arguments in favor of this assumption can be found at global/general level and, as well, at emerging market economies’ level.
As regards the arguments in favor of CSR–based competitiveness at global/general level, they mainly result from the following facts, findings and reasons:

Firstly, the empirical findings of some studies arguing that being responsible is profitable and may become source of competitive advantage: “sustainable development probably is the best shield companies can use against market volatilities. When it comes about how can companies save money, the answer is through sustainable development. Strategies such as <<being green>> or doing sustainable businesses are intelligent alternatives, which help companies to efficiently use resources, manage wastes and the business processes” (Wilhelm, 2008).

Secondly, the conclusions of some scientific articles emphasizing that “the global financial crisis and recession (...) have left many predicting a sharp downturn in attention to corporate responsibility. But this would be precisely the wrong answer. The financial crisis is in substantial part due to a failure of corporate responsibility and avoiding its recurrence requires more attention to corporate responsibility, not less. (...) The global challenges of responsible business today are unlikely to disappear anytime soon, financial crisis and recession notwithstanding. If anything, these economic difficulties heighten the case for greater attention to corporate responsibility, if not a fundamental rethinking of the role of business” (Smith et al., 2010).

Thirdly, the development of new theories emphasizing on sustainability as “key driver of innovation” in a context where “there’s no alternative for sustainable development” – as “the quest for sustainability is already starting to transform the competitive landscape, which will force companies to change the way they think about products, technologies, processes, and business models. (...) By treating sustainability as a goal today, early movers will develop competencies that rivals will be hard-pressed to match. That competitive advantage will stand them in good stead, because sustainability will always be an integral part of development” (Nidumolu et al., 2009).

Fourthly, the emergence and development of sustainable technological innovation – also known as eco-innovation or innovation for sustainable development – term that describes “the contribution of businesses to sustainable development while improving competitiveness. Eco-innovation can be generally defined as innovation that results in a reduction of environmental impact, no matter whether or not that effect is intended” (OECD, 2010) and it can be seen as source of competitive advantage and fundamental of sustainable business models (Boons et al., 2011).

Fifthly (last, but not least), the shaping of a more coherent (global) framework for CSR and the increasing visibility and impact of transparency and CSR reporting: on one hand, we can talk about internationally recognized principles and action lines for CSR and CSR reporting: the OECD Guidelines for Multinational Enterprises (http://www.oecd.org/corporate/mne/), the 10 principles of the UN Global Compact (https://www.unglobalcompact.org/), the UN Guiding Principles on Business and Human Rights (http://www.ohchr.org/), the ILO Tri-partite Declaration of Principles on Multinational Enterprises and Social Policy (http://www.ilo.org/), the ISO 26000 Guidance Standard on Social Responsibility (http://www.iso.org/), Global Reporting Initiative – GRI (https://www.globalreporting.org/) and International Integrated reporting
Council (http://ec.europa.eu); on the other hand, we see that the companies’ efforts toward CSR are annually recognized and reworded by including those companies into rankings such as: The World’s Most Reputable 100 Companies (http://www.forbes.com); America’s top 100 Best Corporate Citizens (http://www.forbes.com/); Fortune 100 Best Companies to work for (http://money.cnn.com/magazines/fortune).

3. Conclusions

The world economy and the global economic environment – characterized by the increasing pressures towards sustainability, on one hand, and by the growing impact of the emerging markets, on the other hand – force all the (global) stakeholders – and especially academia and practitioners – to rethink the traditional models of businesses in order to adjust them to the challenges of nowadays. As sustainable competitiveness becomes, more and more, an imperative for businesses, the arguments in favor of CSR-based competitiveness could be found – even and/or especially in turbulent times such as the current ones – at general/global level and at emerging markets level as well. Therefore, the first part of the research has sketched “the bigger picture” on the subject, enabling the second part to detail on the specifics of CSR-based sustainable competitiveness of multinationals in emerging markets.

Based on all the aforementioned (context and arguments) mentioned on the first part of the research, the second part will begin by emphasizing on some empirical evidences and findings from emerging markets – while arguing about competitiveness and development in emerging markets on one hand, and on multinationals originated and/or hosted in/by emerging markets, on the other hand – in order to identify the gaps in terms of CSR-based sustainable competitiveness of multinationals in emerging markets. Then, a set of specific/particular arguments will be brought in favor of CSR-based sustainable competitiveness of multinationals in emerging markets – both in terms of needs and possible means – and final conclusions will be developed.

4. References


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*** UN Global Compact, available at: [https://www.unglobalcompact.org/](https://www.unglobalcompact.org/).