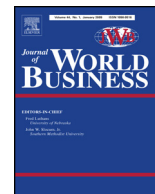




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Overcoming the liability of origin by doing no-harm: Emerging country firms' social irresponsibility as they go global

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ABSTRACT

As emerging (and developing) country firms internationalize, they often need to build legitimacy to overcome home-country liabilities. We argue that international legitimacy is at risk if these firms do harm in the conduct of their business, and we investigate the extent to which host countries' speech and press freedoms influence corporate social irresponsibility (CSIR) for a sample of Multilatinas, observed during the period 2003–2012. We do find evidence of lower CSIR among Multilatinas which have adopted explicit CSR policies and have higher levels of investment in countries characterized by strong speech and press freedoms.

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1. Introduction

In 2012, the Brazilian mining company Vale, won the 'Nobel Prize of Shame'¹ for its contribution to building the Belo Monte dam which will be the largest hydroelectric power plant in the Amazon rainforest. It is forecast that the dam will have a devastating environmental impact, and will inflict forced relocation of the local population to the proximate, large indigenous community which constitutes an infringement of the local population's human rights. Belo Monte is just one source of the controversy currently surrounding Vale which, allegedly, is involved in irresponsible business conduct in other parts of Brazil, as well as in Guatemala, Mozambique, and Peru.² The case of Vale is among the relatively well known cases of emerging country firms involved in controversies over irresponsible business practices or corporate social irresponsibility (CSIR). Other eminent cases include the Foxconn scandal related to labor rights in China

(Duhigg & Barboza, 2012), and the South African AngloGold Ashanti allegations about workers and indigenous rights violations in its home country and also Colombia, Ghana, and Tanzania³; among others.

Irresponsible conduct manifested through the violation of universal human rights⁴ may not be just due to simple accidental or unintentional events. It frequently responds to firms' rent-seeking and resource appropriation strategies (Giuliani, Santangelo, & Wettstein, 2016; Surroca, Tribo, & Zhara, 2013, among others). For instance, violations of labor rights (e.g. child labor, labor discrimination, union busting, etc.) and human trafficking allow for efficiency gains in production; violations of local indigenous communities' rights to land and to life often occur as a result of firms' seeking access to mines or exploitation of other natural resources; violations of the right to health of local communities can be due to poor maintenance of production

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¹ The award is based on 'Public Eye' an online campaign organized by the Berne Declaration and Greenpeace, which started as a critical counterpoint to the annual World Economic Forum (WEF) in Davos.

² Chronicles about the Belo Monte Dam are available at: <http://amazonwatch.org/work/belo-monte-dam>, last accessed 24 November 2015. For the other evidence, we draw on Sustainalytics' firm-specific controversy reports (Sustainalytics, 2015) and analyses of reports by non governmental organizations (available upon request by the authors).

³ For evidence on these cases, we rely on Sustainalytics (2014), as well as on other sources (available by the authors).

⁴ We conceptualize CSIR as human rights abuses, and similar to previous studies (e.g. Ruggie, 2008), our reference is the 1948 Universal Declaration of Human Rights (UNDHR) and subsequent covenants and treaties including the International Covenant on Civil and Political Rights, and the International Covenant on Economic, Social, and Cultural Rights. Therefore, we define human rights as inalienable fundamental rights to which a person is inherently entitled simply by virtue of being a human being. Note that our notion of CSIR as human rights abuses may not capture irresponsible business conduct which does not generate infringement of a person's inherent rights – e.g. damages to wildlife, animals, or misconduct that does not affect specific individuals.

plants, or failure to invest in cleaner and more environmentally sustainable production processes (Giuliani & Macchi, 2014).

Given the growing presence of emerging country firms' in the global economy (e.g. Cuervo-Cazurra & Ramamurti, 2014; Ramamurti & Singh, 2009), more and more evidence of their CSIR is being produced as a result of non-governmental organization (NGO) monitoring, and closer media scrutiny and reporting of corporate misconduct.⁵ This evidence is a cause for concern, and calls for more research to understand the conditions under which CSIR is more or less likely to take place. The heightened attention of international organizations such as the United Nations (UN), the Organisation for Economic Co-operation and Development (OECD), and the International Labor Organization (ILO), on the irresponsible business conduct from of firms, particularly that of large multinational enterprises (MNEs) is a reflection of the increasing evidence of such activity.

Investigating CSIR in the context of emerging country MNEs (EMNEs) is essential because these firms are notorious for country of origin liabilities due to the perceived poor institutional quality of their home countries (Khanna & Palepu, 1997) which in the eyes of many international stakeholders translates into credibility and legitimacy deficits for EMNEs (Madhok & Kayhani, 2012; Ramachandran & Pant, 2010). Hence, their involvement in a CSIR event can be detrimental to their legitimacy building process in the expansion of operations to other countries (Jonsson, Greve, & Fujiwara-Greve, 2012; Lin-Hi & Muller, 2013; Muller & Kraussl, 2011). This creates an incentive for EMNEs to 'strategize' on their CSIR by adjusting it depending on the context where most of their foreign investments are undertaken.

In this paper, we maintain that CSIR endangers EMNEs' legitimation strategies as they go global. We argue that this risk of de-legitimation is higher in the case of EMNEs' investment in countries characterized by strong speech and press freedoms (Cingranelli & Richards, 2010) where any evidence of CSIR is scrutinized, shared, and amplified by relevant constituencies (e.g. investors, suppliers, governments, consumers, etc.) Constituencies in host countries characterized by speech and press freedoms have access to relevant information and can act collectively to condemn firms involved in allegations of human rights (e.g. by publicly discrediting the firm, organized campaigns to boycott the firms' investments or products in the host countries, etc.) By most accounts, allegations of human rights abuses which receive global resonance in the media, are among the "worst nightmares" of managers responsible for obtaining 'social license' for the firm's operations.⁶ This implies that managers of EMNEs whose foreign investments are predominantly in countries characterized by speech and press freedoms will try to ensure control of CSIR through initiatives that prevent harm from occurring and avoid any risk to their firm's legitimacy.

⁵ Traditionally watchdog NGOs and the press have focused on advanced country firms. Such cases as the negative impacts of Shell Oil in Nigeria (Idemudia, 2009), the complicity of Nike in child labor in the 1990s (Lund-Thomsen & Nadvi, 2010), the Union Carbide (now Dow Chemical Co.) accident in Bhopal, India (Dinham & Sarangi, 2002; Shrivastava, 1995), the recent scandal surrounding Monsanto's glyphosate spraying in Argentina (Lapegna, 2014) are emblematic examples.

⁶ We quote here the words of one of the managers (whose name we keep confidential) involved in remedying the damage caused by the collapse of the Samarco dam in 2015. This is one of Brazil's worst environmental disasters, when a dam from an open-pit mining complex owned by Samarco burst, flooding a nearby community, killing 19 and dumping illegal levels of arsenic, mercury and other poisoning metals into the river. Since Samarco is a joint venture between Brazil's Vale and the Anglo-Australian BHP Billiton, the news on the event was given wide resonance not only in Brazil, but also in Australia (and elsewhere). While Samarco's responsibility for this event is still under investigation, this event put Samarco (and, indeed its two owners) under great pressure for the damage that this event has created to their legitimacy, as well as to their capacity to raise investors' money.

In contrast, we argue that EMNEs whose foreign investments are predominantly in countries characterized by weak speech and press freedoms will be less exposed to the risk of de-legitimation because the relevant international constituencies are mostly unlikely to know about the firm's irresponsible conduct. Hence, we posit that managers in EMNEs whose investments are mainly in countries characterized by weak speech and press freedom will face weaker pressures to avoid doing harm, and will be more inclined to behave irresponsibly as part of their firms' rent-seeking strategy.

Our theoretical development is framed within the tradition of neo-institutional theory (DiMaggio & Powell, 1983; Meyer & Rowan, 1977; Oliver, 1991) and its expansions in the context of MNEs (Kostova & Roth, 2002; Kostova, Roth, & Dacin, 2008; Marano & Kostova, 2015). We extend earlier research on the relationship between internationalization and CSIR (Strike, Gao, & Bansal, 2006; Surroca et al., 2013) by offering a novel perspective on the type of institutional pressures to which MNEs are exposed when they invest globally, and consider speech and press freedom as a key construct explaining the processes of legitimacy building of EMNEs suffering from the liability of origin. We defend our focus on the grounds that legitimacy building processes are influenced strongly by the extent of media freedom to report on firms' misconduct, and that loss of legitimacy can be value-destroying for firms.⁷

We further enrich our argument by proposing that the relationship envisaged between internationalization and CSIR is moderated by certain firm-level characteristics. We posit that EMNEs' adoption of explicit CSR policies, understood as explicit and voluntary corporate policies which "assume and articulate responsibility for some societal interests" (Matten & Moon, 2008; p. 409),⁸ is likely to be an important moderator: we expect that the negative relationship between EMNEs' host country speech and press freedoms and CSIR will be stronger for EMNEs with CSR policies compared to other EMNEs. We justify this on the grounds that CSR adopters are generally more closely monitored by the relevant constituencies than non-adopters (Ashforth & Gibbs, 1990; Morsing & Schultz, 2006), and therefore their risk of de-legitimation in case of involvement in CSIR is higher, and it increases with greater investment in countries with strong speech and press freedoms. Hence, in these cases we posit that managers of EMNEs with CSR policies will hold an even tighter control over their firms' irresponsible activities and will reduce their incidence accordingly.

We address our research questions by focusing on a set of *Multilatinas* from Brazil and Mexico (Casanova, 2009; Cuervo-Cazurra, 2008) to analyze the factors that contribute to their involvement in CSIR events. *Multilatinas* are an ideal setting to investigate CSIR, for two reasons. First, the strong catholic roots of many Latin American entrepreneurs have engendered a culture of involvement of firms in societal matters with a view to solving problems which their home country governments are failing to address (e.g. poverty and other social welfare issues) (Fiaschi, Giuliani, & Nieri, 2015; Griesse, 2007; Medeiros Peliano, Beghin, &

⁷ In this sense, other host countries' institutional characteristics such as e.g. their governments' capacity to ensure the rule of law, may not necessarily be more effective in deterring firms from doing no harm – not least because ensuring justice when international firms infringe human rights is fraught with difficulty, as documented by a great deal of business ethics and international law literatures (Kobrin, 2009).

⁸ Note that explicit CSR policies may include a set of initiatives spanning philanthropy, CSR reporting and greater accountability, adoption of principle-based initiatives and socio-environmental certifications (Gilbert, Rasche, & Waddock, 2011) often aligned to global socio-environmental codes of conduct and norms (Fiaschi et al., 2015; Marano, Tashman, & Kostova, 2016; Marquis & Qian, 2014; Zheng et al., 2015).

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