THE MULTINATIONAL PERSPECTIVE ON RESPONSIBLE MANAGEMENT

- Managing Risk-Responsibility Trade-offs Across Borders -

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20-5-2019

Extended version of a contribution to
Oliver Laasch, Dima Jamali, R. Edward Freeman and Roy Suddaby (eds) (2020)
Research Handbook of Responsible Management Education. Edward Elgar Publishing

Abstract

Responsible MNE-managers encounter intricate challenges in taking up international responsibility and developing cross-border business cases for sustainability. The intention-realization gap they face strongly hinges on the earlier adoption of specific business models and prevalent responsibility approaches. Responsible MNE-managers find themselves confronted with a number of vital and decisive trade-offs that essentially boil down to an effective management of various distance variables related to (a) the portfolio of home and host countries in which their company operates, and (b) the stakeholders to engage with in following transition stages to more effective and material corporate responsibility. Embracing international initiatives can help to overcome a number of these trade-offs and turn sustainability risks into opportunities.

Key words: risk-responsibility trade-offs, managing distance, internationalization strategies, internalization of markets and norms

1. Setting the Scene: managing beyond legal compliance

Operating across borders adds considerable complexity to the responsible management of companies. Yet being a Multinational Enterprise (MNE) also creates opportunities in dealing with global 'grand challenges', such as sustainable development and climate change. Most general issues of responsible management contain strong and very specific international connotations. The public discourse on the responsible behavior of MNE-managers has strongly been instigated by events that drew extensive international media attention: the collapse of a garment-factory along the clothing supply chain in Bangladesh (Rana Plaza, 2013); the biggest industrial accident in India (Bhopal, Union Carbide, 1984); oil spills in the Gulf of Mexico (BP Deep Water Horizon, 2010); slavery and child labor in the cocoa chain in Ivory Coast (2012); corruption and human rights violations in far-away locations (Shell Nigeria, 1995; Foxcom-Apple, 2012); selling bad mortgages and spreading risks through securitization to other countries (origins of the global financial crisis; 2008); tax evasion in developed and developing countries (since 2010 topic of congressional hearings); privacy violations (Facebook, 2016); security and intellectual property (Huawei, 2019). In most of these cases, companies and their managers largely complied with the law of the country in which, or from which, they were operating. In strict sense, they did nothing 'illegal'.

The role of MNEs in responsible management issues has alternately been discussed in varying terms. Unethical or irresponsible conduct of MNEs has been covered regarding human rights violations, child labor, pollution and pollution havens and transfer price manipulation. A growing literature is developing in which the (potential) positive contributions of MNEs are stressed in support of sustainable development in general, in comparison to local companies, or in support of global goals. Assessing the dynamics of the interaction between the strategic intentions of MNE-managers (the business case) and the reaction of global and local stakeholders (resulting in a particular business model), provides the most important variable for appraising the degree to which MNEs can be considered a force for positive or negative change.

Trigger events as the ones mentioned above have often acted as a 'wake-up' call. MNE-managers came to understand that their 'business and management as usual' way of operating was no longer accepted or deemed legitimate. Many companies adopted reactive strategies and invested in communication activities, issues-management practices and CSR-departments. In the aftermath, international organizations responded by issuing guidelines (OECD guidelines), voluntary standards (ISO 26000) and compacts (UN Global Compact). Governments pioneered more strict regulation, demanded more transparency in reporting, or penalized companies for obvious misbehavior. Companies adopted codes of conduct, engaged in 'roundtables' (e.g. Caux, Sustainable Palm Oil/Soy), embraced trade-marks or labels (e.g. Fairtrade, Rainforest Alliance), or developed philanthropic strategies to deal with increased demands for scrutiny.

It has been found, however, that reputational risk proves to be a relatively modest motivator to trigger fundamental change and implement more proactive behavior. The greater the 'distance' to the trigger event – be it geographical, cultural or administrative – the weaker the motivation to engage in more than superficial change. Notice for instance that as of yet, none of the above issues has been satisfactorily resolved. The obvious consequence is that trust in the private sector to ‘do what is right’ has become intimately related to the persistent (perceived) unethical behavior of MNEs, leading to a low level of trust attributed to them for ‘doing the right things’.

So, MNE-managers face a sizable ‘promise-performance’ gap (Sethi & Schepers, 2014) while concurrently being accused of not ‘walking the talk’ in addressing distant issues. MNE-managers that are nevertheless serious about their sustainability ambitions hence have to take up responsibilities beyond mere compliance with national laws. They recognize the need to develop and implement credible strategies that help them restore trust through acts of responsible management and positive contributions to society, but also encounter substantial structural impediments when this involves changing the organizational structure of international operations. Companies are faced with serious ‘sunk costs’ related to how they have organized their across-country business model, which accordingly affects the leeway for MNE-managers to define their ‘CSR business case’. As most companies – even small and medium-sized ones – increasingly sell and source internationally, it no longer suffices to formulate and implement domestically induced CSR strategies only. Managers consequently have to decide how to operationalize a transition from CSR to ICR (International Corporate Responsibility) strategies (Hooker & Madsen, 2004). This involves a two-sided challenge of both moving the unit of analysis from the organizational level to include the individual, group and processual levels of managing responsibly (Laasch, 2018a), and of formulating and implementing appropriate levels of societal responsibility in the complex environments in which MNEs are operating (Cf. Abrahams, 1951).

The international environment in which MNE-managers seek to implement ICR-ambitions confronts them with governance and circumstantial challenges (Cf. Van Tulder, 2018a):

- ***Governance gaps***: In many areas in the international arena there are no laws, only norms, morals, guidelines and voluntary initiatives. The international governance gap creates room for companies to adopt higher, but also lower standards of sustainability.
- ***Divergence***: Laws between countries differ. This presents a number of problems for responsible managers. What national law should be used as the benchmark? How dominant should home country regulation be? Should companies adopt different practices per issue and country?
- ***Volatility***: The international environment is arguably more turbulent than the national environment. Laws change over time. Rules and regulation in countries can become stricter, but also more lenient How flexible and adaptive to changing circumstances should ICR strategies be?

An immediate consequence of increasingly challenging conditions is that MNEs present ever longer lists of ‘risks’ (Van Tulder & Roman, 2019). Companies can thereby adopt a reactive approach, in which they deal with ICR issues as risks that can be managed by embracing international voluntary standards. They can also take a proactive approach and appraise global governance gaps as an opportunity to define international strategies beyond (voluntary) international and national regulation. Responsible MNE-management is consequently influenced by international (voluntary) regulation like the OECD Guidelines, constructed to prevent companies of engaging in a 'race to the bottom'; or by multi-stakeholder induced targets like the Sustainable Development Goals, designed to stimulate a 'race to the top'. The way in which MNE-managers deal with global sustainability challenges, defines the effectiveness of their responsible management approach.

This contribution aims at enriching the responsible management discourse with insights from the International Business and International Management literature. It provides a basic understanding of what actually defines a multinational enterprise and the antecedents of change for translating a general business case for CSR to a more specific ICR business case. Section 2 discusses the elemental building blocks that will be used for this ambition. Next, a general framework is formulated that should help researchers, managers and lecturers to focus on the most important stages and antecedents of transition towards higher levels of responsible management (section 3). The chapter concludes with threshold topics for further research and teaching that constitute the building blocks for a broadened theory of the MNE (section 4).

2. Building blocks of responsible MNE management

The Responsible Management literature seeks to integrate sustainability, responsibility and ethics (Laasch & Conaway, 2015). Broadening the question to the responsible management operations of MNEs, brings together at least three additional research traditions: International Business/ International Management (IB/IM), International Business and Society insights (in particular stakeholder theory), and International Business Ethics (IBE). In IB/IM, the leading research question can be summarized as "what determines the international success and failure of firms" (Peng, 2004: 106). In B&S studies, the leading question has been centered on how firms should operate in interaction with society. IBE focuses on defining the 'moral principles and codes' that should be applied by business all around the world in order to distinguish between what is 'right' and 'wrong' and contribute to the creation of societal value, either by avoiding to do harm or by doing-good (Cf. Van Tulder & Van Mil, in this handbook). There has been a growing realization that IM and IBE theory need integration (Doh et al., 2010) while taking the relationships with international stakeholders across borders into account (Veser, 2004). One particularly relevant way of integrating all these perspectives is by looking at the role of the 'responsible manager' in formulating and implementing responsible business models across borders (Cf. Prahalad, 2010).

The interdisciplinary domain that tries to cover these overlapping fields is called International Corporate Responsibility (ICR) (Hooker & Madsen, 2004). Here, the leading question for responsible MNE-management can be summarized as: 'what determines the success and failure of (managers of) MNEs in designing, creating and sharing international societal value in interaction with society'. The discourse nevertheless shows considerable gaps as to *how* MNE-managers can strategically deal with the grand (sustainability) challenges created by the process of globalization. Although certain studies have discussed companies' influence over specific sustainable development challenges – for instance related to poverty and inequality, energy and climate change or peace – recent literature reviews show that far fewer research efforts have examined the actual actions of individual firms in sustainable development (e.g. Kolk et al., 2017; Van Tulder et al., 2014). A composed research question that centers on the responsible MNE-management *task*, consequently becomes: '*how* to develop a vision and strategy on how companies can deal with the 'ethics of globalization' (Singer, 2002), *how* to link corporate responsibility and globalization (Cf. Van Tulder with Van der Zwart, 2006) and *how* to manage global business activities responsibly (Laasch & Conaway, 2015). The associated international management challenge consecutively boils down to three closely related dimensions: (1) how to assess the general internationalization strategy of the company (international management of marketing, sourcing, location), (2) what context (stakeholders, culture, issues) does the manager have to reckon with, and (3) how to deal with the interaction between context and strategy: what distance dimensions to take into account for implementing responsible management decisions.

2.1 Internationalization strategies: managing within diverse business models

Within the scientific IB-discipline, the so-called 'internalization theory' developed to explain for the logic and legitimacy of MNEs. It contends that in an imperfect world, multinational corporations, under certain conditions, can be considered a lesser evil when compared to non-multinational corporations. MNEs are asserted to correct for 'market failure and imperfections' in both national and international product markets (Buckley, 2009). The internalization theory builds upon the general 'theory of the firm' as introduced by Coase, which argues that markets, in general, are not good at directing resources. Firms then are a response to the high cost of using markets. Many of the imperfections in *international* markets appear because of government measures like tariffs, quota and non-tariff barriers that severely limit the potential for firms to profit from (open-free) international trade and exchange. MNEs have set up facilities around the world to internalize part of the market inside their organization and in doing so, potentially provide solutions to market and governance failures. If MNEs organize the interaction between headquarter and subsidiaries well, they can contribute to greater wealth through enhanced efficiency and greater exchange of knowledge. They face, however, a basic 'liability of foreignness' (Kostova & Zaheer, 1999). Companies that internationalize beyond a certain stage can lose part of their competitive advantage. The effects of experience wear off, and more established companies often have to adapt to local circumstances much more than they would like to.

Accordingly, a leading discussion in extant IB-studies is what degree of international coordination and integration is necessary for MNEs to reap a competitive advantage by internalizing markets. Globalization is considered one option, though with serious flaws (Rugman & Collinson, 2012). *Global companies* like Coca-Cola or Nike aim at reaping economies of scale through standardizing their production and distribution model. They rely on standardized markets and sales that are difficult to create on a global scale, whilst being more susceptible to reputational damage. Most MNEs consequently have developed '*regional*' or '*multi-domestic*' strategies – with local brands, products and production – to reach sufficient degrees of competitive advantage over local companies (ibid). MNEs like Unilever or Siemens have traditionally developed multi-domestic strategies to link to local markets and be accepted as a local player. Many MNEs are nevertheless still largely *trading* companies, which have the advantage of being relatively ‘foot-loose’, able to enter and leave countries in case of conflicts of interests.

Each of these MNE business models delineates advantages and disadvantages in dealing with internalization challenge and the antecedents for companies to capably manage external challenges of responsible business (Cf. Van Tulder, 2018b). Research on the liability of foreignness indicates that host companies generally have a lower survival rate than local companies (Rugman & Collinson, 2012). Trading companies then will either de-internationalize or move to countries that are less ‘distant’, which will initially lower their profit margins. More locally engaged types of MNEs – if they survive – may be able to proceed by strong internal capability development and turn the liability into an asset (again). The company’s ability to become accepted as a genuine local citizen is vital in this sequence. Strategic management research (Crilly & Jiang, 2016) further reiterates that the liability of foreignness is higher when firms take a reactive approach, focused on avoiding harmful activities that produce negative externalities (such as pollution and tax evasion). The liability of foreignness is minimized when firms engage in ICR activities that concentrate on proactive engagement in creating positive externalities, such as pension schemes, partnering, and inclusive growth. The way companies organize their ICR activities across borders also affects their social performance. Muller (2018) linked degrees of internationalization and financial performance for a sample of 1,000 MNEs with their social (CSR) performance. He found that better social performers enjoy higher profits at home. He also found that the financial performance of socially responsible companies is initially negatively affected if they move abroad, yet improves at a faster rate (than average profitability) in further stages of internationalization. Past a certain point, which can be interpreted as the tipping point between a reactive and active phase, managers of the company establish a degree of pragmatic legitimacy in the international arena and the moral legitimacy effects of CSR kick in again, amplifying the positive effect on company profits (ibid).

MNEs with high degrees of internationalization that seek to make the business case for ICR can only achieve this when they move beyond a certain point of engagement and align with local stakeholders. A responsible MNE-manager will take an actor perspective on the creation of salient business models and stakeholder relations (Laasch, 2018b). This profile fits the ‘glocally responsible’ MNE, as defined by Laasch and Conaway (2015): “A *Glocally Responsible Business (GRB*) is a business that is at the same time globally and locally responsible, which is able to create value for stakeholders around the world and in every location, that actively addresses both global and local sustainability issues, and that manages global moral issues and intercultural ethics successfully” (ibid: 436). This profile, however, not necessarily fits the management of the trading company, the multi-domestic company and the global company. Managers engaged in these business models require a different business case for ICR, or have to define more deliberate and concrete transition pathways to reach the stage of global and local responsibility.

2.2 Contextualization: managing diverse Responsible Management (CSR) Regimes

The IB/IBE literature has added more specific observations on the interaction between business model and home and host regulation, with a prime concern on how companies can adapt to a large variety of different national CSR regimes (Matten & Moon, 2008; Visser & Tolhurst, 2010). IB/IM research in this regard commonly distinguishes between positive and negative ethical duties (Cf. Crilly et al., 2016). Positive duties then entail making additional contributions to the well-being of society ('doing-good'), while negative duties imply pre-empting negative impacts on communities and the environment ('avoiding harm'). Most IB-studies presuppose adaptation to regulatory frameworks, at relatively low levels of commitment (do no harm). How companies are positively affected by international regulation and what the effect is on the race to the bottom or to the top, remains largely unaddressed.

Prescriptive stakeholder theory on the 'ethics of international business' (Donaldson, 1989) and the moral obligations of managers towards their international stakeholders has been widely embraced. *Descriptive* stakeholder management theory on the actual behavior of managers, firms and stakeholders, however, has evolved less. At present, the approach to international stakeholder management tends to be largely procedural, while strategic choices for particular internationalization strategies are rarely specified. Where internationalization strategies are reckoned with, a relative simple trichotomy is often presented between 'global', 'local' and 'transnational/glocal'. The latter category then relates to the 'integrative' solution to ethics, building on the 'global-responsiveness' grid developed by Prahalad and Doz (1987). Other authors in the same tradition have observed that an increasing number of companies have adopted formal ethics programs in a hierarchical manner aimed at internalization of organizational values (Verkerk et al., 2001). Yet the strategic repertoire of MNEs in practice is much broader and also shows considerable discrepancy between strategic intent and strategic reality. When theorists develop 'global stakeholder' (Carroll, 2004) or 'global corporate citizenship' models (Lodgson & Wood, 2004), they largely base their approach on the strategic intent of (mostly) American companies that have been frontrunners in developing global brands (Van Tulder, 2018b). 'Global stakeholders' do not represent a uniform category, but rather represent the cross-national organization of interests (Wartick and Wood,1999:104), including global environmental stakeholders (Greenpeace, WWF), global political stakeholders (from the International Communist Party to NATO), global terrorist groups or global religious stakeholders. The latter group is "perhaps the constituency most likely to be overlooked by US managers and scholars" (ibid: 106).

Some IBE approaches take a more procedural point of view: they focus on the conflicts that appear along the way as MNEs organize activities across different cultures with diverging or conflicting values and norms (Hofstede, 2005). Donaldson (1989), for instance, examined the dilemmas created by differences between home and host country norms and values. He concluded that while MNEs should respect fundamental human rights, they not always have to apply the highest standards possible, for instance when dealing with repressive regimes. The perspective holds that international firms should respect principles that function as minimum requirements for socially, ecologically and ethically responsible corporate conduct: so-called ‘hypernorms’. Donaldson and Dunfee (1999) identify this as the ‘moral free space’, in which each person, each stakeholder and each company is entitled to formulating their individual point of view. In particular in internal management areas, creating hypernorms – which can be developed as corporate cultures of ethically and socially accountable conduct – can create a competitive advantage over local firms and help overcome the dilemmas of fragmentation that multi-domestic firms face in adapting to local norms and values.

The relevance of home, host or international stakeholders depends on the business model adopted by leading MNEs – often in interaction with external stakeholders. In the 1970s and 1980s, American MNEs adopted global strategies. At that time, European MNEs primarily adopted multi-domestic strategies. Later on, Japanese – as well as latecomer American and European MNEs and newcomer Chinese and Indian MNEs – primarily implemented either export-oriented or regional strategies (Cf. Rugman & Collinson, 2012). Only a few companies implemented truly ‘transnational’ strategies (Van Tulder, 2018a). Different internationalization strategies impact differently on home and host stakeholders. A sophisticated ICR management model takes these strategic realities into account – something that has not yet been developed. This defines the third building block of a responsible management approach: the way companies have been trying to coordinate and integrate their activities over a variety of countries. The term used by IB-scholars to cover for this, is ‘distance’.

2.3 Managing distance and risks-responsibility trade-offs[i]

According to Nachum and Zaheer, “[d]istance is fundamental in international business theory, and implicitly or explicitly occupies a central position in all its subfields” (2005: 747). The ‘business case’ for internationalization strategies – i.e. what makes an internationalization strategy successful – critically depends on the effective management of the various distance dimensions that exist between home and host countries. Extant theoretical thinking and empirical testing in IB/IM has first focused on general and more operational dimensions, such as *geographic*, *psychic* and *cultural distance*. Psychic distance represents a relevant category for managers that have to deal with controversies related to the adopted business model across borders. IB research has traditionally stressed the importance of cultural distance, yet in practice it has been shown that ‘institutional distance’ is a much more important factor to consider when managing the entry strategies of MNEs (Cf. Slangen & Van Tulder, 2009). Formal and informal institutional distance – for instance in the relationship with emerging markets (Estrin et al., 2007) – tend to affect business strategies in opposite ways. The greater the *institutional* or *administrative* distance is between the home country of an MNE and a particular host country, the greater the challenges for the managers of an MNE-subsidiary in establishing and maintaining their *legitimacy* in that host country (Kostova & Zaheer, 1999). For MNE-subsidiaries operating in host countries, legitimacy, license to operate, and CSR strategies are closely related (Van Tulder, 2018a).

From the IBE-literature we can derive another distance dimension. Watson and Weaver (2003) for instance noted that the level of internationalisation is strongly related to the level of concern company executives display towards ethical issues. Executives of international companies are more aware of ethical dilemmas (ibid: 85), which primarily materializes in case they open subsidiaries in developing countries (offshoring) or extend their outsourcing networks to weakly developed constituencies. Managing this type of '*normative distance'* by modern MNEs in practice often boils down to managing '*development distance'*: the bigger the development distance is between a firm's home and host country , the bigger the 'moral free space' becomes, the bigger the ethical dilemmas are, and the bigger the need for an integrative approach to corporate responsibilities. In case ethical dilemmas are connected to a large development distance, the likelihood increases that MNEs consider this a 'company internal' challenge that enables and requires a particular kind of corporate management/leadership. It has been suggested that typical 'development distance' dilemmas – such as child labor, living wages and bribery - call for 'transformational leadership', in which managers are not afraid to adopt strategies and codes of conduct that may deviate from the 'common denominator' in the sector (Cf. Kolk & Van Tulder, 2004). In practice, normative and institutional distance require the effective management of stakeholder relations (and related issues), spread over a large number of countries. This prompts a final, overlapping 'distance' dimension to the equation of Responsible MNE-Management: *stakeholder distance*.

In many home countries of MNEs, tools have been developed to map various distance dimensions. GTZ CSR Navigator in Germany, for instance, maps countries in terms of their CSR policy maturity levels; the CSR Risk Barometer in the Netherlands maps the CSR risks that companies face when going to less institutionally mature countries. These tools primarily serve as a risk management tool: doing business in more advanced CSR regimes requires companies to deal with more regulatory pressure, whereas doing business in less advanced CSR regimes puts less pressure, but might add more reputation-related CSR risks. Effectively managing each of these distance categories, delineates the responsible management strategy of MNE-managers. MNE-managers that are confronted with the turbulence in the international regulatory environment and the associated risks and opportunities, must make realistic assessments of the context in which they have to operate. The distance between the home base and the various host countries defines whether the distance creates risks or opportunities. Three types of risks and opportunities can be distinguished: (1) operational, (2) strategic, and (3) sustainability risks/opportunities (Van Tulder, 2018a):

[1] Operational risk/opportunities relate for instance to currency risks when conducting international business or cultural differences between the countries of operation. Dealing with operational risks is the 'hygiene' factor of doing business across borders. It presents the difference between good and bad management and can therefore be considered the basics of responsible MNE-management. This aspect becomes more important if the 'distance' between home and host market increases.

[2] Strategic risk/opportunities relate to political risks which are prevalent in immature or volatile political systems. Historically, the main concern for foreign companies in developing countries was the risk that the state would capture their assets by expropriation or nationalization. Since the 1980s, direct expropriation has practically disappeared; governments now use more subtle measures, such as discriminatory regulations or contracts governing an investment. Strategic risks can seriously endanger the return on investments. The quality of regulation and measures to protect investors are good indicators of how substantial these country risks are. Dealing with strategic risks implies an active approach to relationships with primary stakeholders such as governments.

[3] Sustainability risks/opportunities relate to the license to operate and experiment (Cf. Van Tulder & Van Mil, in this book) the firm can obtain, particularly in its host markets and always involves the firm's corporate responsibilities embedded in the relationships with primary and societal stakeholders. Responsible MNE-managers have operationalized this license by developing frugal products for the 'bottom of the pyramid' (Sinkovics et al., 2014), thereby creating growth opportunities in yet underserved markets (Prahalad, 2010).

In developing countries, the most salient sustainability risks are associated with poverty and income inequality. It is almost impossible to be structurally engaged in developing countries without adequately addressing many (related) sustainability risks. The challenge for managers in these countries – as traders or as investors – is to effectively manage risks and opportunities concurrently. Various distance dimensions are simultaneously relevant and must be managed in real time. Understanding the influence of distance is important for managers during all stages of business, because of its immediate relation with transaction costs and risk/responsibility management strategies. Generally speaking, the larger the development distance, the more sustainability risks must be taken into account. In developing countries, the most salient sustainability risks are associated with poverty and income inequality. The challenge for managers– as traders or investors – is to effectively manage risks and opportunities concurrently. Various distance dimensions are simultaneously relevant and must be managed in *real time*. Understanding the influence of distance is important during all stages of business, because of its immediate relation with transaction costs and risk/responsibility management strategies.. Combining various distance dimensions creates additional insights for managers.

Consequently, there are two main preconditions for international success in designing and implementing ICR-management strategies:

- **Selecting a proper portfolio of countries**: This can be considered a function of the relative distance towards specific host countries. The portfolio should not only be properly managed, but also be superior to that of direct competitors; present and future country portfolios are linked through transition trajectories.
- **Managing operational, strategic and sustainability risks** concurrently: This is a balancing act between international risks and responsibilities.

MNEs have increasingly tried to cover distance related trade-offs, largely by conceiving of these as risks. The average number of risks disclosed in the annual reports of a sample of 70 MNEs, for instance, has been found to have more than doubled from 2002 till 2012 (Van Tulder & Roman, 2019). This applied to operational and strategic risks, but strikingly also to sustainability risks – of which environmental, corruption, and reputation risks were found to be the fastest growing (ibid) and to which most of the MNEs involved showed a relatively reactive attitude (ibid). At the time of the study (2014), most of the MNEs involved showed a relatively reactive attitude towards sustainability risks.

3. Moving beyond regulation: strategic transition stages

Operating across borders always involves a combination of risk-evasion and risk-taking strategies. Ultimately, successful entrepreneurship is about turning risks into opportunities while minimizing risks during implementation. Internal coordination can partly cover operational risks, but strategic and sustainability risks cannot be dealt with by internal measures alone. The bigger the economic and administrative distance, the greater the social challenges become and the more firms should thus include development distance into their management models. The larger the development gap between home and host country, the more MNE-managers will be expected to contribute to solving development issues such as poverty and food insecurity. This is increasingly the case for companies that not only trade, but also invest in other countries. While a wholly owned subsidiary might be preferable from a risk-management perspective, a joint venture may be the preferred option from a responsibility point of view. All firms that are engaged in less-developed countries are faced with issues such as heterogeneous market structures, financial constraints of clients, underdeveloped distribution networks, data scarcity, poor infrastructure, and low levels of education. Here, managers should consider how to balance risks and responsibilities in everything they do and what transition pathways to engage in when moving from one stage of responsible management to another.

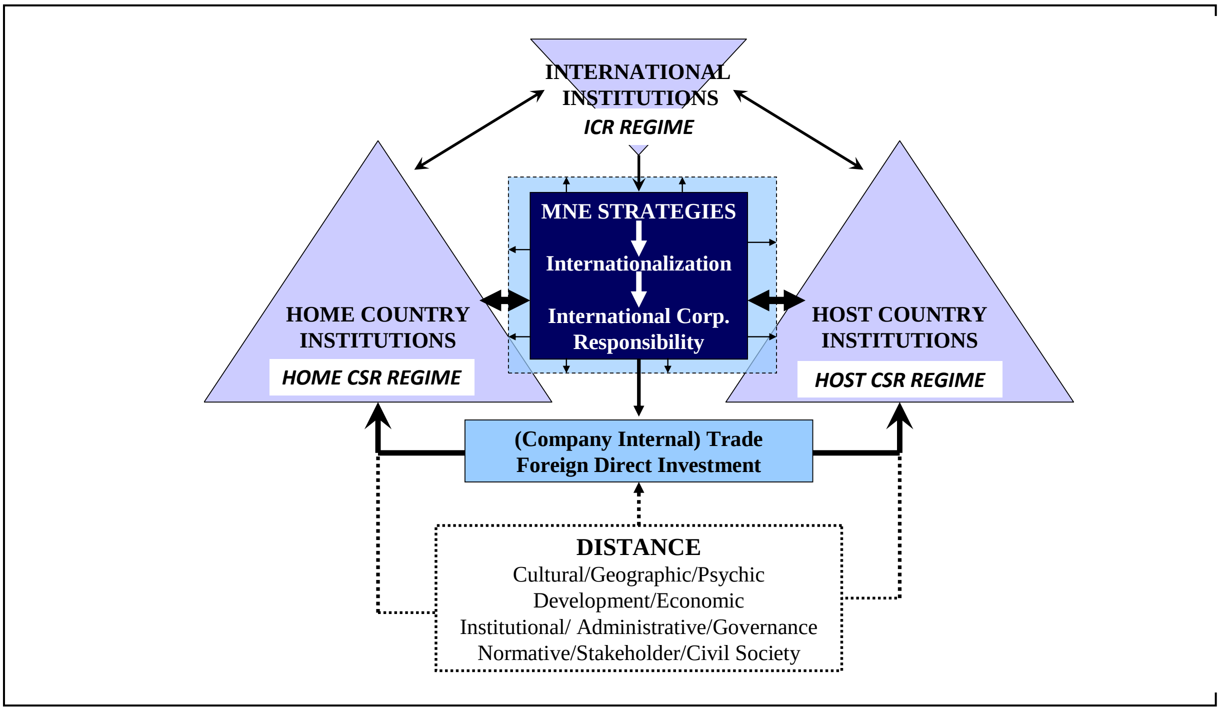
Stages models of responsible management across borders are generally taken from the general CSR-literature and applied to an international context. Extant CSR-literature has focused on different stages that companies can adopt when moving towards higher levels of responsibility (Maon et al., 2010; Kolk & Mauser 2002). They typically respond to the managerial demand for clear-cut 'how-to' models that provide managers some reference regarding at what step of the transition they are, or should be at in order to be called 'best-practice' or 'best-in-class'. In general, the stages literature defines four phases (Hengelaar, 2017) of CSR: inactive, reactive, active and proactive. Each has a different focus on the rationale and business case for sustainability and is linked to four different value propositions and managerial intentions, related to different meanings of the CSR-acronym (Van Tulder, 2018a):

- Stage 1: inactive/passive responsibility attitude - Corporate *Self* Responsibility (CSR as cost-minimization strategy);
- Stage 2: reactive attitude - Corporate Social *Responsiveness* (CSR as brand and reputation strategy);
- Stage 3: active attitude - Corporate *Social/Strategic Responsibility* (CSR as strategic niche strategy);
- Stage 4: pro-active attitude - Corporate *Sustainable/Societal* Responsibility (CSR as new economy strategy, aimed at solving systemic failure).

For each of these layers of corporate and managerial action, the CSR discourse has shown that there are solid business cases, in ever increasing levels of commitment, different degrees of having and taking responsibility, and different types of engagement with stakeholders. The transition from one stage to another does not necessarily represent an evolutionary or accumulative pattern. Research on dominant transition patterns shows different dynamics, managerial motivations and conditions under which the transition can be successfully organized (Van Tulder, 2018a). The transition from stage 1 to 2 is generally activated by an external trigger event that affects the reputation of the company (see section 1). The transition from stage 2 to 3 requires an 'internal alignment' of capacities to be financially sustainable. For MNEs, this stage involves changes in the internal coordination and integration (Prahalad & Doz, 1987) of the company and a strategic rethinking of the position in international value chains. The transition from stage 3 to 4 necessitates 'external alignment' with primary and secondary stakeholders in key societal issues that the company considers vital to address – since no company can thrive in a society that fails.

Responsible MNE-management can be addressed as the responsible management of distance: how to take all relevant distance dimensions into account and link them to a resilient business model across borders, in which companies can combine efficiency (internalization of markets) with serving societal needs (adding value). Figure 1 presents the basic ingredients of a model that defines the relevant dimensions and two effects that need explication: (1) Home and host country interactions are mediated by a variety of distance measures that depend on the decision in what CSR-regimes to locate through Foreign Direct Investment, and from where to source (company internal and external trade relations). In turn, (2) the nature of home-host country interactions is affected by ICR-initiatives by international institutions (e.g. OECD; UN), which also influence the degree of convergence/divergence between distinct national CSR-regimes, depending on the adoption of international standards by national governments.

Figure 1 The Responsible Management of Distance – interaction effects



3.1 International Business models as the interaction between home and host regimes

In MNE-strategies four general approaches can be distinguished, each with: (a) a typical stakeholder approach in home and host countries, (b) a specific relationship to distance as an intermediary variable (based on the portfolio of activities spread over countries), and (c) room of manoeuvre for responsible managers to move to different levels of internationalization and organizational responsibility (the ICR business case). The different distance dimensions define the relative weight of the influence exerted by either host or home countries on the success of the company's implemented business model (Van Tulder, 2010):

- ***The Trading company*** – with a prime responsibility to its home-based stakeholders. Managing this business model requires strong coordination and integration from the home base. Stakeholder relationships are dominantly directed at primary stakeholders (customers and governments) that can influence the firm's market position. Geographic issues of international responsibility only indirectly affect operations. Companies primarily face operational risks-responsibility trade-offs. International Responsible Management can then be understood as '*Indirect International* Corporate Responsibility'. Managers can still take responsibility for global issues, but are less likely to do so.

- ***The Multi-domestic company*** – with a dispersed responsibility to all countries in which it operates. This business model represents a typical 'matrix' company with limited international coordination and integration. Relevant distance categories include cultural and institutional dimensions. Companies face both operational and strategic risks-responsibility trade-offs. International Responsible Management in practice becomes 'International Corporate *Responsiveness*'. A matrix-like organisation tends to create considerable coordination problems for responsible management.

- ***The Global company*** – with a responsibility to primary and secondary 'global stakeholders' as defined by Carroll (2004). This business model requires coordination at a global level, without special reference to the home base. Relevant distance categories include cultural, administrative and stakeholder dimensions. MNEs face strategic and sustainability risks/responsibility trade-offs. ICR becomes 'International *Corporate/Competitive* Responsibility' and is the most susceptible for guidelines and codification efforts of international NGOs and international organisations. For this type of company, global stakeholders and global (universal) norms are highly relevant, but also controversial if the distance between home and host countries' values is high. MNE-managers that are serious about 'doing-good' approaches, will look for global stakeholders to develop universal approaches to sustainability issues with a direct bearing on their competitive position (e.g. Roundtable of Sustainable Palm Oil; Marine Stewardship Council). Whether universal 'one size fits all' approaches are acceptable to a wide variety of local and global stakeholders can however be disputed.

- ***The Glocal or Transnational company*** – combines a global responsibility approach with local responsiveness to stakeholders and local issues (Bartlett & Ghoshal, 1989). This business model has a globally coordinated strategy that is locally integrated with primary and secondary stakeholders, which requires sizable coordination activities and a strategic and very flexible management of stakeholder relationships around the world. All distance categories are relevant, in particular normative, stakeholder and developmental distance. The Glocal Company comes closest to the GBR-principle of Laasch and Conaway (2015), but is extremely difficult to establish. One way of approaching this ambition is to adopt global goals – like the Sustainable Development Goals – that aim at realization of universally endorsed goals and require multi-stakeholder engagement, without specifying the exact road to take or the partnership constellation to adopt (Van Zanten & Van Tulder, 2018).

Interpreted as transition stages from one MNE business model to another, different distance dimensions have to be managed in order to effectively deal with risk-responsibility trade-offs. In case MNE-managers seek to move from a negative duty approach (avoid doing harm) to a positive duty approach (doing-good), they face an organizational 'fit' challenge that relates to the management of four types of portfolios (Cf. Van Tulder, 2018b):

(1) product and services portfolio
(2) country portfolio (as markets and supply bases)
(3) issues portfolio (which they face across borders)
(4) partnership portfolio: how to manage stakeholder relations

Aligning these related portfolios delineates the room of maneuver for MNE-managers. The business case for ICR develops along comparable transition trajectories and value propositions as the general discussion on CSR, but with international organizational and strategic dimensions that define particular coordination and integration challenges and, ultimately, the degree to which issues can be defined as ‘risk’ or as ‘opportunity’. The business case for ICR thus depends on the type of organization (business model) that can be implemented by companies. Table 1 illustrates how the general business case for CSR can be operationalized in a business case for ICR.

Table 1 Four levels of operationalizing Responsible Management

The business case for CSR			**The business case for ICR**	
Stage/ Tier	Management attitude related to generic strategy (how to earn money by being responsible);	CSR acronym, translates as:	mediating international organization	ICR acronym, translates as:
1	Inactive: Cost-minimization	Corporate-*Self* Responsibility	Trading company	*International Indirect* Corporate Responsibility
2	Reactive: Reputation and good-will: brand-image value	Corporate social *Responsiveness*	Multi-domestic MNE	International Corporate *Responsiveness*
3	Active: Competitive product and entry strategy	Corporate Strategic/Social *Responsibility*	Global MNE	International *Competitive Responsibility*
4	Pro-active: Societal impact; new economy	Corporate *Sustainable/societal* Responsibility	Glocal/ Transnational MNE	International *Community* Responsibility

3.2 Facilitating the transition: which international initiatives to support?

The international arena provides additional opportunities to deal with the transition challenge as defined in section 3.1. The extent to which the international space can be considered to be open, non-regulated or ‘ambiguous’, depends on the degree of convergence and divergence between national governments operating in this space. Countries often compete on regulation in order to provide incentives for companies to invest in or trade with them. If countries converge to the lowest denominator on sustainability issues, this creates a race to the bottom, which tends to reinforce reactive ICR-strategies. This fear has materialized for issues like ecology (creation of pollution havens), taxation (tax havens) and social affairs (labor rights violations). If countries converge to higher standards of sustainability, they can encourage a race to the top in support of more active ICR-strategies. International initiatives can stimulate the institututional and regulatory convergence on sustainability issues between countries. These rarely include supranational rules; most international governance is susceptible to negotiation and voluntary agreements. Voluntary agreements can create level playing fields or provide a positive stimulus for companies to embrace higher ambitions for sustainability. In the international arena, a number of international organizations and initiatives have developed that aim at either preventing a race to the bottom or stimulating a race to the top (Table 2).

Table 2 Exemplary International initiatives since 2010 and behavioral aims

Aimed at preventing a 'race to the bottom': Tier 1 and 2	Aimed at stimulating a 'race to the top': Tier 3 and 4
OECD Guidelines on Multinationals UN Global Compact UN (Ruggie) General Principles on human rights PARIS Climate agreement OECD: Base Erosion and Profit Shifting (BEPS) project Publish what you Pay campaign	ISO 26000 GRI: G3, G4 Sustainable Development Goals (SDGs) World Business Council for Sustainable Development (WBCSD) Business and Sustainable Development Commission (WEF)

Initiatives aimed at preventing a race to the bottom have been considered only moderately successful and supportive of relatively reactive approaches. Governments initiate most of these initiatives and implementation is considered patchy at best. More recently, the global governance gap is being filled with multi-stakeholder initiatives in which representatives of civil society, firms, and governments participate. These initiatives are often voluntary, such as the ISO 26000 guideline (which specifies how to implement sustainable business models). New kinds of global initiatives are being taken that not only build upon multi-stakeholder approaches, but also explicitly call upon countries to translate specific (quantifiable) ambitions into official policy. Prominent examples are the UN Climate Change conference ('Paris Agreement') and the UN Sustainable Development Goals. Even when regulation and implementation around the world diverges, a global agreement creates a common minimum reference to monitor the extent to which the race the bottom can be stopped.

MNE-managers consequently have two basic approaches at their disposal:

(1) A relatively reactive approach, in they abide by international voluntary regulation (e.g. OECD Guidelines; Ruggie Principles on Human Rights). Most of these criteria are based on the 'do no harm' principle and aim at limiting risk factors related to the international organization of operations. It will help MNE- managers to deal with basic ICR challenges as a 'risk', but not support them in seizing opportunities.

(2) A more strategic and (pro)active approach *beyond* legal and moral obligations in both home and (some) host bases, by setting up new 'rules of the game' that contribute to the (global) 'common good', preferably together with other stakeholders.

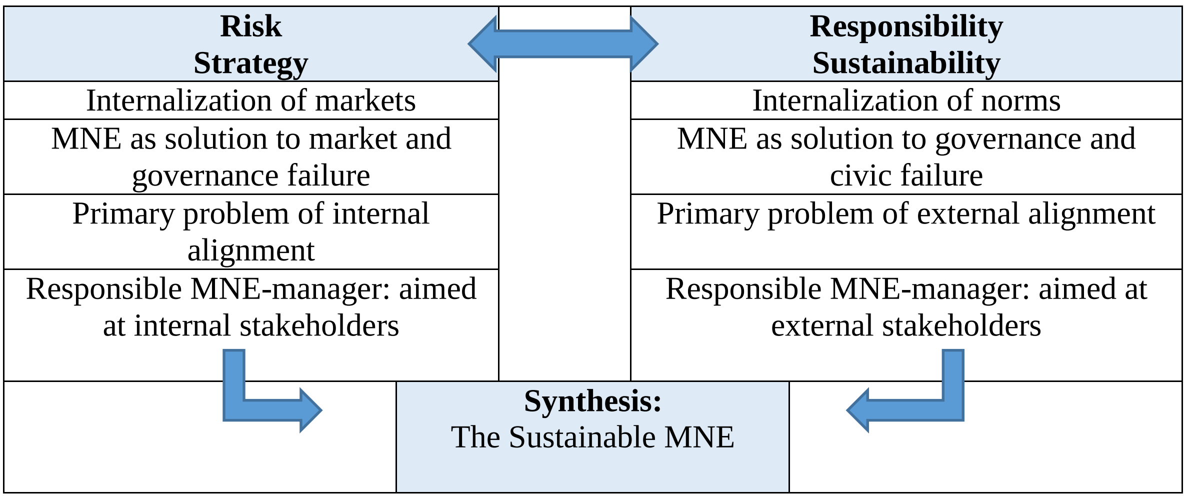
MNEs that consider ICR as a risk-category have been found to predominantly adopt the reactive approach (at tier 1 and 2). Frontrunner MNEs that have adopted a proactive strategy not only have embraced the SDGs, but have also invested in creating an inducive regulatory environment in the countries of operations. The number of MNEs that is developing this approach is increasing, but the amount that is actually able to implement this strategy still proves relatively small (Van Zanten & Van Tulder, 2018). Mastering the dynamics of transition trajectories – in a multiple-stakeholder environment – as portrayed in Figure 1, should help managers to map the challenge.

4. Conclusion and Further Research

This contribution has tried to move the International Corporate Responsibility (ICR) discussion to a more managerial level, by discussing a number of conditions and threshold concepts that MNE-managers need to consider when they aim to steer their company to higher levels of responsibility, while taking a realistic perspective that reckons with previous portfolio decisions. By taking a more managerial approach, the chapter provides a new take on the classic "Theory of the MNE", and also provides ample opportunities for future research in the domain of International Management.

Classic MNEs are a response to the high costs of using markets as an exchange mechanism of economic value in a complex world. MNEs set up facilities around the world to internalize part of the market inside their organization. They potentially provide solutions to market and governance failures. If MNEs organize the interaction between headquarter and subsidiaries well, they can contribute to greater wealth through enhanced efficiency and exchange of knowledge. Ethical theory adds an important dimension to this argument: in an imperfect world in which norms and values compete, MNEs can also internalize norms and in doing so, create an environment that solves some of the rivalries between cultures, norms, and values. MNEs are in a position to create a normative free space that can enhance sustainable ways beyond competition for national systems and cultures. By aligning the internal organization with the norms and values of external stakeholders, MNE-managers can give substance to their international responsibilities. If MNE-managers do this right, MNEs can also be considered a force for good. An extended theory of the multinational enterprise therefore looks at both internal and external alignment dimensions, defines the trade-offs between risk and responsibility, and seeks to assess whether the synthesis, as created by a particular company, adds value (Figure 2).

Figure 2 – Extended Theory of the MNE



The theoretical notion derived from IB thinking is that MNEs potentially add *efficiency* to the actual operation of global capitalism by the 'internalization of markets' across borders. It can now be complemented with the ethical notion that MNEs potentially add *equity and fairness* to the actual operation by the 'internalization of norms' through effective stakeholder management. The responsible MNE-manager aims at creating a synthesis between both lines of argument. Consequently, the challenge for Responsible Management is to combine both perspectives, without compromising on the main ambition for Responsible MNE-Management research: 'what determines the success and failure of (managers of) Multinational Enterprises in designing, creating and sharing international societal value in interaction with society'.

Threshold concepts that are needed in this query and that were introduced in this contribution require further empirical testing and elaboration. They include: (a) the management of distance, that (b) contributes to the production of global public goods, (c) through external stakeholder engagement and partnership approaches, (d) that are not based on philanthropy, but integrated in core activities, and (e) are linked to sophisticated combinations of business cases (intent) and business model (realization), that (f) can take many shapes, depending on the conditions of the company, the global economy, the influence of stakeholders and the issues addressed. Ultimately, the litmus test of all these efforts and the basis for a legitimate claim of MNEs to develop strategies and regain trust, is the impact that these efforts have on global issues like climate change, poverty, hunger, income inequality, tax evasion.

In conclusion, the scientific discourse on the corporate responsibility of MNEs is relatively biased towards a 'negative frame'. This has affected the managerial discourse, which is strongly biased towards CSR as 'risk management' and 'avoid doing harm' frames. The overall topic of sustainable development is only generally addressed, and hardly ever from the perspective of MNEs and MNE-managers or from the angle of actual impact of specific governance patterns and CSR-orientations of companies. Slowly, a 'do good' literature is developing on how MNEs can contribute to sustainable development, but still at a very general level of analysis. At a more topical level, the focus has been on the 'bottom of the pyramid', but mostly fragmented or based on dispersed case studies. Only recently has the potential contribution of MNEs to the positive agenda of the SDGs at the managerial level been initiated. Filling the gaps in the extant discourse on responsible MNE-management, consequently requires attention for the following topics for managers:

- How to move from reactive and adaptive approaches, to more active and institution-creating initiatives
- How to take different business models and related business cases for ICR into account, without the suggestion of evolutionary stages
- How to consider not only 'negative duty' and negative frames, but also make and organize the business case for 'doing-good' and developing global public goods
- How to reckon with interaction effects between home and host countries and develop a more dynamic model of internationalization processes
- How to define the importance of international regulatory initiatives
- How to distinguish between various stakeholders: global, regional, national, local
- How to prevent a 'race to the bottom' and enhance a 'race to the top'

- How to link intention and realization of responsible management models in an imperfect and volatile world.

This ambition defines a research and teaching agenda for many years to come.

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[i] A manual is available that specified all relevant distance variables as well as the databases that can be used to measure a large number of relevant distance dimensions: www.robvantulder.nl