

# WHAT LIES BETWEEN GLOBAL EFFICIENCY AND LOCAL ADAPTATION? UNDERSTANDING THE SOCIAL RESPONSIBILITY OF MULTINATIONAL FIRMS

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## ABSTRACT

*International management distinguishes between global integration and local adaptation, but offers few nuances between these two strategies. Using a multi-level approach and case study data from Malaysia, we develop a typology of MNC behavior on a continuum between the two known extremes. The research draws on institutional theory and applies it to the context of social responsibility initiatives of MNCs originating in developed nations. The results of this study show, contrary to the dichotomy between global integration and local adaptation, evidence that there is a continuum to contend with. It proposes a typology of four categories of firms depending on their degree of local adaptation.*

**Keywords:** *Multinational Firms, Business Strategies, Social Responsibility, Adaptation, Developing Countries*

## 1. INTRODUCTION

How do multinational firms formulate strategies for their operations in emerging countries? How do they adapt to the pressures and demands of stakeholders in host countries? Theories of international management are incomplete and outdated when it comes to explaining the activity of today's multinational corporations (MNCs) in emerging countries. This issue has been raised repeatedly by scholars, from Buckley and Lessard (2005), who lament the lack of solid theories to aid researchers, to Rodriguez et al. (2006) who claim that there is a dire need for theories that link MNCs to their social environment, to the late John Dunning's (2009) recent piece which recommends an update to the conceptual frameworks used by international management scholars. It appears that, while scholars have been hard at work investigating globalization and its effects, conceptual models keeping up with these developments are suffering a time lag.

We address this challenge in this article and set out to investigate the relationship of the MNC with its external environment and develop theory about MNCs' adaptation in emerging markets. Using a case study methodology with field work conducted in Malaysia, we present a typology of MNCs' engagement in social initiatives and local adaptation in their host country and show that organizations differ in their adaptation to local environments based on factors situated at the level of the organization and of the activity sector.

This article contributes to an ongoing discussion in the field of international management seeking to understand how MNCs' strategize for competitive advantage in their operations abroad. Theoretically, we enrich existing thought through a multilevel analysis, which unveils new patterns of behavior of MNCs operating in developing countries. Effectively, this study adds necessary layers between the distant extremes of global integration and local adaptation, with evidence that there is a continuum to contend with, and not a dichotomy. Additionally, while most studies link social and financial performance, this study focuses exclusively on social performance, seeking to unravel how firms engage with local environments in their pursuit of competitiveness in international markets. After a brief review of the literature enabling us to identify a framework for analysis, followed by a description of the Malaysian context, we develop the reasoning behind a typology and four company profiles, which emerge from the case studies developed in our research.

## 2. LITERATURE REVIEW

The study of the relationship between an organization and its environment is of utmost concern to researchers of organizations and managers alike. Contribution come from such schools of thought as planning, positioning, population ecology, resource dependence, contingency, design, collective learning

(Mintzberg, 1990). Each of these schools possesses a partial or contingent, descriptive or explanatory capacity (Martinet, 1997). When the environment is considered as a variable, emphasis is usually placed on the firm's task environment (Bourgeois, 1980; Lenz & Engledow, 1986). The task environment is considered to be an information source, a resource, and pertains to the group of actors needed to realize the organization's main task (Thompson, 1967). In general, authors of these schools pay little attention to the social and the general environment, which is perceived as neutral. The thrust behind interest in MNCs' need for local adaptation is based largely on economic considerations, where, for example, consumers' preferences lead firms to change product lines (Bartlett & Ghoshal, 2002; Prahalad & Doz, 1999).

While this may hold true in the context of some Western countries, it is nowhere near as true in other contexts, where the social environment may be highly significant. Siagh (2001) terms such contexts *intense culture* environments, where one dimension, such as religion, ideology or national culture, predominates. In the process of internationalizing, MNCs are often called upon to operate within these kinds of contexts. In such situations, the *one best practice* or *one-size-fits-all* approach, arising from the logic of standardization and corporate coherence, inevitably runs up against different lived realities, which are neither neutral nor standard. These realities, shaped by the play of cultural and social forces (Colin, 1990), include habits, conventions and values that vary according to the context (Scott, 2001). Therefore, a tension between the global and the local, and the confrontation of two different and even opposing logics takes place.

It is undeniable that in the context of economic globalization, the trend towards uniform standardization is deepening, with a resultant predomination of the global view. Yet, what about the local aspects? To what extent do they influence MNCs' behaviour? At what point in their quest for profits and standardization do multinationals take cultural diversity into account? Do they respect these differences and adapt to the varying contexts? How should management be organized within this framework? And how can it reconcile the various pressures and respond to the demands?

We attempt to answer these questions by adopting a holistic perspective, which accounts for complexity at many levels. The ideas presented here develop at the intersection of several bodies of literature, and, while we draw primarily from the theories of international management and social responsibility, we also acknowledge important influences from proponents of institutional and corporate sustainability theories. Below, we review and organize conceptual elements belonging to the international management paradigm, and corporate social responsibility at the level of multinationals. At the intersection of these bodies of work we situate a theoretical grounding on which case studies were carried out.

### 2.1 The international management paradigm

Many researchers have studied the behaviour of multinational firms, pointing to the need for MNCs to understand and act on both global and local levels (Ghoshal & Bartlett 1990; Bartlett & Ghoshal, 2002; Prahalad & Doz, 1999; Gupta & Westney, 2003). In their studies, researchers look mainly at economic, technological and political imperatives. They are interested in the organizational capacities of companies in terms of resources devoted to creating sustainable competitive advantages that allow them to produce added value and increase profitability.

Nevertheless, scholars have noticed that this paradigm is outdated and in need of re-specification (Buckley & Lessard, 2005; Dunning, 2009; Husted & Allen, 2006; Rodriguez et al., 2006). For instance, Dunning (2009) justifies his call for updated conceptual frameworks in international research by outlining the changing trends in the current global environment, such as, the increasing importance of intellectual capital in the creation of wealth, the globalization of economic activity, and the emergence of what he calls "alliance capitalism," defined as the cooperative arrangement where stakeholders collaborate around issues more closely with each other. We find support for this last point in our own study, where we see firms developing relationships with their main stakeholders around critical issues. It appears as though the existing template of global integration/local adaptation does not fully explain why firms would engage in these activities.

Further empirical evidence on this claim is brought by the study of Husted and Allen (2006), conducted in Mexico. The authors investigate the relationship between local and global social responsibility and international organizational strategy, pegging against each other the strategic logic and the institutional

logic. Their research finds significant support for the institutional logic, and no support for the strategic one, suggesting that firms in today's global economy do not respond to pressures for integration or responsiveness, but rather, replicate existing product-market strategies in their management of social responsibility, or use a different approach altogether. These findings suggest that local adaptation is not as easy to find or justify to executives of MNCs competing in a dynamic global environment.

To summarize, this article is motivated and builds on existing dissent regarding conceptual models available for international management research. We agree with scholars who argue that these models are incomplete (Buckley & Lessard, 2005; Rodriguez et al. 2006) and outdated (Dunning, 2009; Husted & Allen, 2006). The incompleteness stems from the coarse conceptualization of MNC behavior in emerging countries. The models are outdated because much has changed since their development, and, increasingly, industries exhibit fast cycles, where the transnational is the predominant strategic model, leaving little room to observe strategic variance.

In our study, which focuses on socio-cultural imperatives, we are interested in MNC behaviours regarding their capacity for local adaptation and participation in social responsibility initiatives that involves adding value to host countries and contributing to their growth while still ensuring profitability and improving legitimacy. Further, beyond the firm's need for profitability, unified corporate strategy, and the alignment between organizational characteristics and those of the task environment, we highlight the need for balance as paramount to organizational survival and thriving in a global environment increasingly sensitive to corporate responsibility. MNCs are forced to maintain a constant balance between a myriad pressures coming from different directions, which points to the complexity of managing MNCs and to the challenges faced by their managers and directors. Kostova & Zaheer (1999) show that organizational theories are enriched when tested in, and extended to the context of multinationals, which are in constant need to establish and maintain legitimacy in multiple local environments.

The next section funnels our conceptual undertaking by looking at the more specific interaction between multinationals and their social environment, as illustrated through corporate social responsibility and corporate sustainability initiatives.

## 2.2 The social responsibility challenge of multinationals

Scholars of international management are generally motivated by the need to understand if there are, indeed, differences between countries, when it comes to concepts which are well defined within the confines of a national border. As such, when it comes to understanding the social behavior of MNCs in their host countries, the question is: Does the behavior of MNCs differ outside of their home countries? In other words, are they responsible abroad?

Approaches to social responsibility differ among firms, depending on their location and firms report differently depending on where they operate. Hartman, Rubin, and Dhanda (2007) highlight differences among regions of origin of MNCs regarding what attributes are valued, where E.U. stakeholders are convinced by sound financial and sustainability arguments, while U.S. firms are compelled to stress above all the financial soundness of any social initiative. This suggests that there are differences among MNCs depending on their country of origin.

Nevertheless, these activities have been curbed significantly over the last decade as a result of improved regulation (Rugman & Verbeke, 1998), increased pressures from global NGOs (Arts, 2002; Teegen, 2003) and the expectations of increasingly aware and educated local civil societies (Lepineux, 2005). In fact, there is evidence that MNCs are now more responsible in their operations abroad than local or national firms in the same countries, due to higher global scrutiny of their operations (Zyglidopoulos, 2002). What explains this transition?

While external pressures (Kolk, 2008; Levis, 2006) may present irrefutable motives for MNCs responsible behavior, they do not explain why firms choose to engage proactively with their local social environment. Interesting explanations on stakeholder engagement are given by theorists of strategic management, who argue that, by engaging with their social environment, firms build valuable capabilities which contribute to their competitive advantage (Hart, 1995; Heugens, van den Bosch, & van Riel, 2002; Russo & Fouts,

1997). By engaging their stakeholders, firms build valuable trust-based relationships and gain competitive advantage over firms that do not, with the added benefit of improving organizational learning and legitimacy (Heugens et al., 2002). Wei-Skillerns (2004) cautions however, that these capabilities involve gradual development of long term comprehensive strategies and not a short-term marketing ploy or a quick-fix recipe meant to simply influence public opinion.

A point of contention emerges among scholars on the issue of MNC adaptation to local environments, with some arguing that voluntary or strategic organizational policies are called for (Christmann & Taylor 2002; Hart, 1995; McWilliams & Siegel, 2001; Russo & Fouts, 1997), while others asserting that firms are better off following institutional norms provided by their industry (Husted & Allen, 2006), or by adapting to local regulations (Levis, 2006). Voluntary adoption is based on the notion that firms build capabilities, and anticipate policy changes, which put them ahead of firms which waited for that regulation, or worse, are being coerced into adoption through financial penalties. Moreover, Christmann and Taylor (2002) argue that, due to the complex context in which they operate MNCs cannot rely on governments to regulate environmental conduct in the global economy.

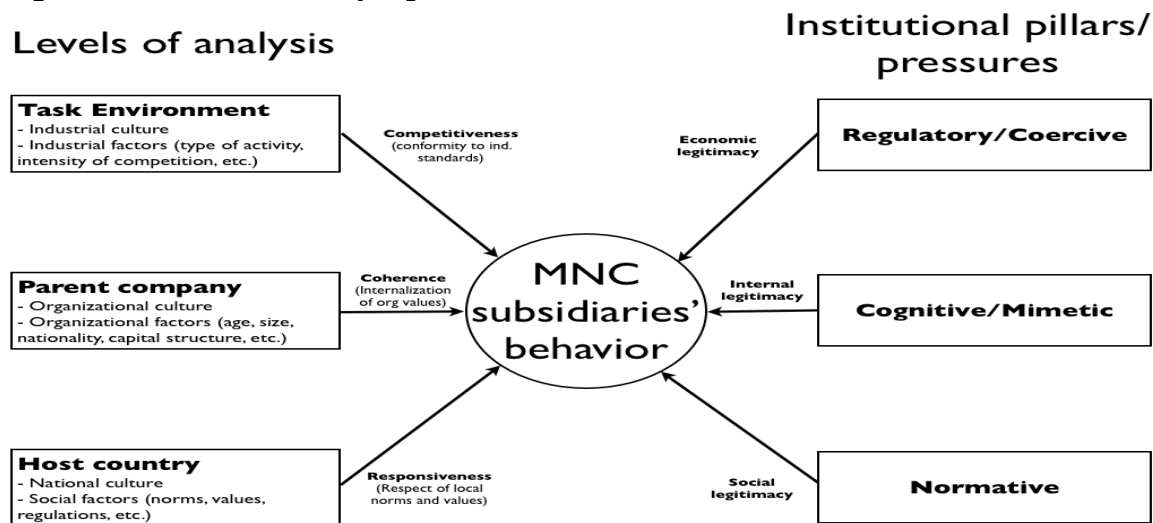
On the other side of the argument, authors suggest that it may be too risky for firms to adopt voluntary social initiatives in anticipation of policy changes, because policy may not be promulgated in the direction expected by the firm. Levis (2006) argues that most firms still adopt CSR initiatives based on external pressures, because there is arguably higher risk and uncertainty in corporate self-regulation. This point is upheld in the research of Husted and Allen (2006) who refute the strategic logic, and claim that an institutional logic is followed by MNCs operating in emerging countries, which choose the path of least resistance in their local operations. We contend that multinational subsidiaries are confronted by two distinct sets of isomorphic pressures, and by the need to maintain their legitimacy in regards to both the host country and the parent company. They thus find themselves in a situation of institutional duality (Westney, 1993). The institutional context of the host country can influence the practices of multinational subsidiaries, in particular through direct pressure exercised by regulatory components. These translate into laws and regulations promoting some types of behaviour and restricting others (Scott, 2001). The subsidiary therefore adopts practices as a way to become isomorphic with local organizations in the same activity sector. But, in fact, foreign subsidiaries are not expected to be entirely isomorphic, especially if the parent company is powerful and the subsidiary less dependent on the host country (Meyer & Zucker, 1988). In that case, the direct effect of the institutional environment is smaller.

Pressure from the local context can also be exerted through employees. According to Zucker (1977), elements of the institutional environment enter organizations via the people who work in them. Employees' judgements about organizational practices are influenced by their beliefs, which are in turn shaped by the external institutional environment in which they live. Thus, even if the subsidiary is independent of the host country environment, it is subject to its institutional influences through the employees who carry those institutional values (culture, religion, ideology). In this optic, when the practices of the subsidiary conform to local social norms and cognitive structures, the motivation and judgements of the staff are positive and they tend to internalize these practices. Besides the pressures exercised by their external institutional environment, multinational subsidiaries face internal pressures to conform to the parent company's core structures and practices (Kostova & Roth, 2002). Subsidiaries thus find themselves influenced by institutional forces in their country of origin as well.

Consequently it appears that the subsidiaries of MNCs are subjected to simultaneous pressures coming from their task environment (activity sector), their internal organizational environment (parent company), and their social or societal environment (host country). At each of these levels, stakeholders exert a range of regulatory, normative and cognitive constraints, requiring the firm to adapt in order to maintain legitimacy. MNC behaviour would seem to be influenced by contingency elements in combination with institutional factors arising out of different types of environments. Consequently, studying such behaviour would require that we consider different levels of analysis. According to Doz and Prahalad (2005: 37), "what is needed from a managerial research standpoint is a robust conceptual model of how the MNC works, a model that researchers and managers can play with to simulate reality." In an effort to answer this call, we propose an analytical framework that integrates multiple dimensions and reflects the complex

dynamic of the firm's relationship with its environment, particularly in the case of subsidiaries of multinational firms as shown in figure 1.

**Figure 1:** Framework for analyzing the behaviour of MNC subsidiaries



This framework allows us to advance the notion that the behaviour of multinational subsidiaries is indeed influenced by a set of factors both contingent and institutional arising from three types of environments (task, organizational and social). This conceptual frame is intended as an integrating framework that takes into account multiple aspects of the company, and the different types of environments with which it interacts through its various stakeholders. It becomes imperative for managers of the subsidiaries of MNCs to maintain a constant balance between the multiple institutional pressures. The normative and cognitive dimensions of institutions push MNCs to gain legitimacy by conforming to societal beliefs and norms and to the cultural orthodoxy both at the social and organizational levels. At the same time, at the regulatory level, legal sanctioning makes the basis of legitimacy and is based on the setting and enforcement of regulation, which often vary from one industry to another. We advance this framework as a heuristic tool for concrete analysis of the behaviour of the firms we studied within an exploratory inductive research conducted in the context of **Malaysia**.

### 3. METHODOLOGICAL FRAMEWORK

This study employed qualitative methodology as required by the exploratory nature of the topic, and the complex nature of the research context (Langley, 1999). Primary data collection relies on interviews as suggested by the case methodology developed by Yin (1994) and documentation was employed to corroborate and augment evidence from other sources. In this study, interview data was utilized as the main evidence to describe the company-level processes. Documentary evidence was retrieved to construct a picture of the industry-level dynamics and changes in the institutional context.

Malaysia displays the features of an institutional context in which enterprises are expected to consider the country's norms, values, cultural and social traditions, and religious beliefs. Based on this recognition, the sample consists of six subsidiaries of MNCs originating in developed countries and operating in this context were surveyed using semi-structured interviews and secondary data. A total of 45 managers (mainly expatriates) were interviewed in the course of this study. A systematic within-case analysis, followed by a cross-case analysis (Eisenhardt, 1989; Langley, 1999) applied to the subsidiaries of the following international companies: Nestlé (Swiss); Unilever (Anglo-Dutch); Alcan, SNC-Lavalin, Le Régent (Canadians) and Dragages (French), allowed us to identify the main organizational, industrial and social factors influencing the behaviour of the subsidiaries of the MNCs. Because Malaysia presents a number of important distinct features, we present the research context before we discuss measures and results of the case studies.

### 3.1 The importance of context: Economic and socio-cultural characteristics of Malaysia

The research context of Malaysia was chosen to study adaptation of MNCs with regards to social responsibility because it offers a rich institutional environment which allowed us to test the three pillars of institutionalism -- all of which offer strong pressures to MNCs and robustly challenge the global economic logic MNCs traditionally employ. Malaysia is a Muslim and multiethnic country situated in the heart of Southeast Asia, an emerging economy with mid-range revenues. It is a federal and a constitutional monarchy made of thirteen states. Malaysia is rich in natural resources. It has a diversified industrial basis, a favorable climate for investment and a modern and effective infrastructure, which allowed the country to become an attractive market for many global MNCs.

Historically, the country has long suffered from an ethnic split between political power and economic predominance creating a precarious balance between the public and private sectors. This ethnic division culminated in a racial riot in 1969 while the Malays owned about 1.9% of corporate shares compared to 37.4% for non-Malays and 60.7% for foreigners (Jesudason, 1989).

In response, Malaysia's political leaders embarked on a program that emphasized unity, nationhood and economic reforms seeking more equitable distribution of national wealth. In 1971, the Malaysian government launched the New Economic Policy (NEP), an extensive 20-year plan seeking to "reduce the identification of race with economic function and geographical location" (UN, 2006). Accordingly, "ethnic restructuring and poverty alleviation were elevated to primacy among the goals of Malaysia's development effort" (Rudner, 1994). Following the strategies outlined in the NEP, Malaysia's government leaders introduced a policy of affirmative action in hiring and in access to higher education. The policy was designed specifically to help the Bumiputras (sons of the soil), most of who lived in rural poverty, to gain an increased share of a growing economy targeting 30% asset ownership for 1990. With some exceptions of wholly owned subsidiaries, most MNCs had to abide by this rule. In 1995, the Bumiputras owned 23% of corporate shares compared with only 1.9% in 1970. Chinese held twenty-seven percent of corporate ownership in 1970 and this increased to 41% by the mid-1990s (Netto, 2003). Thus, thanks to a rapid economic growth exceeding 8%, Malays were able to increase their asset ownership without reducing or taking from others' parts. Overall, Malaysia's economic record has been one of Asia's best, marked by a shift from agriculture and the production and sale of natural resources to manufacturing and the growth of service industries.

Strong government leaders, committed to clearly articulated strategies for economic and social development have been a major factor in Malaysia's progress. Their strategies combined openness to foreign direct investments subject to government controls, direct support for export-based industries, and vigorous programs supporting health care and education and skills training. Furthermore, all government policies needed to be articulated in a manner that was acceptable to cultural and religious traditions. For example government policy makers often pointed to Islamic teachings of self-sufficiency in order to justify the need for economic development (Norhashim & Kamarulzaman, 2005). Given the dual social and economic approach, economic growth was used as an instrument to restore equality and to maintain a social stability in a multiethnic society. One tool developed in this process is called *smart partnership*, which involved agreements between the public and the private sectors. As defined by Mahathir (2000:35), smart partnerships:

"...are about government, organizations, and people working together for long-term mutual gains to help bring about global harmony and cooperative prosperity. They require the following ingredients for success: a shared vision, common goals, clear understanding of each partner's strengths and weaknesses, willingness to compromise."

We see that Malaysia offers a great context to observe the tension between social and economic logics resolved in a fairly balanced way, as salient traditional long standing views were met by an equally legitimate desire to integrate in the global economy. It results that the context of Malaysia requires government to formulate a core development policy according to the specific circumstances, culture and history of the country. In this case, the political leaders, through their understanding of the historical and social context of their country and of its specific needs played a critical role in shaping the way forward for the development of Malaysia. Given the multiple logics government servants are exposed to, we

observed and conjecture that they develop policy reflective of these logics. In turn, the legislation inspired by multiple logics acts as pressure upon MNCs which function on the basis of an economic logic.

In such context where social and economic needs are clearly identified and the local reality is complex and dynamic, what are the challenges facing the multinational companies through their subsidiaries? How do these companies manage the different pressures and logics they are subjected to? How do they reconcile the global efficiency requirements with the local needs? The cases developed in this research offer several viewpoints to help answer these questions.

#### **4. BEHAVIORS OF MNCS IN MALAYSIA: BETWEEN LOCAL AND GLOBAL**

In this section we develop the multilevel approach and present the typology, which emerges from case data. Subsidiaries of MNCS with significant operations in Malaysia are subject to control by multiple factors, contingent and institutional, tangible and intangible. These factors derive from their business sector, their own organizational characteristics, and the context in which they operate. Firms operating internationally are expected to adopt behaviours in line with the norms and standards of their activity sector. They also have to conform to in-house policies. Further, they are expected to consider and adapt to requirements dictated by the characteristics of their host country. These firms thus find themselves caught between standardization (the global), and adaptation (the local). The results of our research show that the degree to which these firms adapt depends largely on the nature of their activities and the number of local partners involved, as well as on their own characteristics.

##### **4.1 The activity sector (product market)**

In our research we noticed that firms internationalize either by conforming to uniform standards or by adapting to local specifics depending on the nature of their activities, whether they offer consumer products or capital goods. For example, companies operating in the food and consumer products sector are forced, by the nature of their business, to adapt their products to the tastes and demands of local consumers. Their legitimacy and profitability depend on their ability to adapt. In Malaysia, a predominantly Muslim country, the availability of Halal (permissible) food products is extremely important to the Malay citizens whose national government makes it a priority. As a result, all beef and poultry products must be certified "Halal" (as defined in the Muslim faith), gelatine products must be free from pork by-products, and there can be absolutely no alcohol in any product. Companies like MacDonald's and Burger King, or Nestlé and Unilever, are held to this local requirement to supply Halal products and have to go through strict accreditation process. Towards that end, the Malaysian government has created a special department, the Division of Islamic Affairs reporting to the Prime Minister's Office, responsible for issuing official Halal accreditation to companies producing food products for local consumption.

On the other side, companies offering consulting services or capital goods, such as SNC-Lavalin, Bombardier and Alcan, do not have to adapt those goods and services to the local culture, as their services are not susceptible to social and regulatory pressures. Their operating constraints come more from the competition, and from the international standards prevailing in their activity sectors, which are global in scope. These firms must conform to industry requirements and develop a competitive advantage (for example, offering financing arrangements or maintenance services in addition to their skills and expertise) in order to secure as many contracts as possible.

Key success factors include, good relations with the authorities in the host country, along with local employee and customer satisfaction. Within this framework, brand and reputation constitute competitive advantages and give a firm its legitimacy. An engagement with the society is perceived as conferring competitive advantage. We saw that Alcan grasped this fact and tried to operationalize it across organizational practices. Thus, even if the firm does not have direct contact with consumers, because of the nature of the business, it is still critical to have local shareholders, employees and clients satisfied. This means they too are subject to pressure from local partners, especially when the latter are supported by the authorities that administer local bylaws, regulations and contracts, but the pressures differ by product market, as shown.

## 4.2 Organizational factors (capital market and ownership)

Organizational factors derive from the MNCs themselves and include size, age, corporate strategy, nationality, organizational culture, entry mode, capital structure, and others. Each of these factors drives the firm to adopt behaviours that move the operation towards either a global logic of standardization, or a local logic of adaptation. In our sample, factors such as age and size were the strongest predictors of variance. Thus, older companies had stronger organizational culture, which lead to a stronger tendency to institutionalize, by standardizing the practices and procedures at its subsidiary locations. At the same time, the bigger the company and the more staff it hires locally, the more it will need to adapt to local realities.

Nestlé, a one-hundred-year-old company, is a good example of the effect of organizational factors on adaptation. In 2000, Nestlé's management launched a project called GLOBE, for "Global Business Excellence", advertised as a uniform basis for operations in all its markets. The Nestlé group was working towards standardizing all its procedures, in all areas, as well as its infrastructure and IT. The goal, according to executives, was to harmonize internal procedures in order to use the group's size for competitive leverage, greatly reducing costs and getting closer to consumers. In short, GLOBE's objective was to improve performance and efficiencies in Nestlé's operations around the world. Nestlé Malaysia was chosen as the first subsidiary to implement the project.

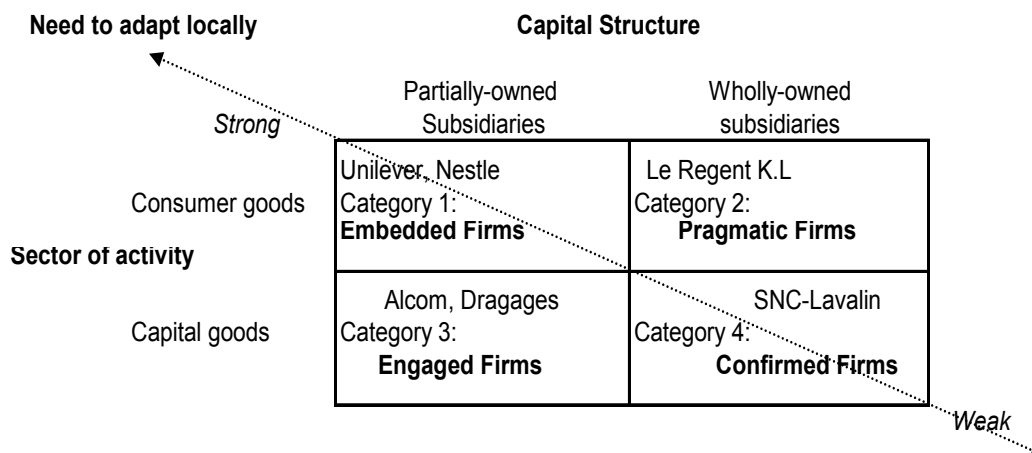
Meanwhile, Nestlé Malaysia is in direct contact with consumers, and has thousands of local employees and local shareholders who hold more than 30% capital. Due to these economic and social constraints, Nestlé executives adopted a policy, which took into account the conditions, mindsets and situations encountered locally. They have learned by experience (after an international boycott of their products) that they will not be successful unless they build on the basis of cultural and social knowledge of the country. Nestlé's top management expresses the dilemma of many other companies, when they internationalize, which is: How to reconcile *coherence* (of principles, rules of behaviour, and strategy) with *diversity* (of countries, social categories, geographic regions, activity sectors, and product ranges)? (Maucher, 1995).

Among the organizational factors, capital structure of the subsidiaries is also an important factor influencing their behaviour in terms of local adaptation. Partially owned companies (e.g. Nestle, Unilever and Alcan) with local partners have definitely more pressure to adapt to local demands and characteristics than the wholly owned ones as is the case for SNC-Lavalin and Bombardier. In sum, it appears that while some aspects and processes lend themselves concretely to standardization, others resist. Which leads us to distinguish two types of aspects deriving from corporate management, which may be termed "hard" and "soft", or "technical" and "human." The first elements – the "hard" or "technical" arising mainly in the management of investment capital and technical systems as well as in the development of general principles – may obey a global logic. The second category, involving the management of human capital and relations with local partners, require greater adaptation to the local context, and a consideration of social factors, not simply economic ones.

## 4.3 Patterns of behaviour of multinational firms

Building on the two sets of factors -- product and capital market -- we develop the following typology of firm behaviour, based on the Malaysian subsidiaries of several MNCs originating in developed countries, as shown in Figure 2 below.

**FIGURE 2: PATTERNS OF ADAPTATION OF THE SUBSIDIARIES OF MNCs**



Thus, depending on whether they sell consumer products or capital goods, and whether they are owned in whole or in part by the parent company, four categories of multinational firms operating in foreign countries emerge. This typology intersects a finer gradient between existing coarser conceptualizations of global integration and local adaptation. The diagonal axis illustrated in Figure 2 situates each category according to the need to adapt to local contexts, and identified firms from our study that best illustrate that ranking. In descending order of their need to adapt, we find Unilever followed by Nestlé, closely followed by Le Régent. Then comes Alcan, ahead of Dragages, with SNC-Lavalin showing the least pressure to adapt. This classification can be understood as follows:

#### **4.3.1 Category 1: Embedded firms**

This category covers companies or subsidiaries offering consumer products, partially owned by the parent company. In this category, we find subsidiaries like Nestlé Malaysia and Unilever Malaysia. In their activity sector, they are expected to adapt to the tastes and requirements of local consumers. In addition, since local shareholders hold part of their capital, they find themselves in the position of “citizens” having to consider all their partners, at the national as well as international level. Furthermore, since their presence in Malaysia goes back a long time (1912 in the case of Nestlé; 1947 in the case of Unilever), they are well established there. As such, they fit the profile of the socially embedded firm that needs to maintain its image and preserve its local assets. For firms matching this profile, the need for social engagement and local adaptation is very high. Unilever’s leading position may be explained by an integration policy designed to make the company a trusted corporate citizen, and by the fact that it hires more local directors and managers than Nestlé, which has many more expatriates on its management team.

#### **4.3.2 Category 2: Pragmatic firms**

In this category, we find subsidiaries wholly owned by a parent company offering consumer goods and services. This category is represented in our study by Le Régent K.L. Since the hotel and restaurant sector in which this firm operates requires direct client contact, the quality of its service and customer satisfaction is crucial to its image and survival. Because its clients include local people with specific requirements and set eating habits, local adaptation is necessary. The role of staff in this case is also crucial. Customer satisfaction depends on their skills. This MNC is expected, therefore, to train employees and provide a healthy work environment (prayer spaces, breaks, and time off for religious holidays such as Eid, and for local celebrations). Although this firm is not a citizen and does not count local shareholders among its partners, it does reflect the hospitality traditions of the country in which it operates and considers itself a community player. It promotes Malaysian tourism and business by trying

to create customer loyalty among companies and business people. It sponsors local events and takes part in community activities. Its expatriate managers are aware of the need to adapt to the local context and engage in the social aspect of the firm's activities. Whence the *pragmatic* profile of this type of MNC, which takes the specific social context into account and adapts its management approach accordingly.

#### **4.3.3 Category 3: Engaged firms**

Engaged firms are subsidiaries supplying capital goods and are partially owned by the parent company. The category includes companies like Alcom (a subsidiary of Alcan) and Dragages (a subsidiary of Bouygues). These firms share the fact that they do most of their business with government sector clients. They have no direct communication with customers or the public and do not need to adapt their products or services to local demand. They therefore experience less pressure. Nevertheless, they do have to satisfy shareholders who are also local partners. And, because employee motivation is important for performance and profitability, a commitment to employees is also necessary. Their operations contribute to the host country's development in terms of infrastructure, job creation, training, knowledge transfer and corporate taxes. They are, moreover, sensitive to environmental issues, and make efforts to reduce the negative impacts of their operations on the environment, in particular through the recycling of aluminium products, and the construction of high quality environmental buildings. In Alcom's case, management at both the national and international level, decided to make social responsibility and sustainable development a component of their management strategy, and are moving towards operationalizing those principles in their current practices. Thus, in addition to its economic activities, Alcom introduced a micro-enterprise program aimed at promoting environmental and entrepreneurial education among students in early grades, focusing on making them aware of the benefits of recycling. Therefore, the "engaged" profile of such subsidiaries.

#### **4.3.4 Category 4: Confirmed firms**

This category covers subsidiaries wholly owned by a parent company, operating in the equipment goods sector. Among the firms in our sample, the category is best represented by SNC-Lavalin, but we could also add Bombardier, since it has the same characteristics and type of behaviour as a multinational operating in Malaysia. These companies are free of pressure from local shareholders and consumers, and do not have to adapt their goods or services. Still, they do have employees to train and motivate, and clients to appeal to in order to land contracts. The managers of these firms believe they do their share for society simply by operating there, which contributes to national development and citizen welfare. They pointed specifically to their contributions in a joint venture to build a subway for Kuala Lumpur and a local public transit system. These firms depend to a large extent on their expertise and very good reputation. A reputation owed to their respective competencies as well as common nationality. A statement by an SNC-Lavalin executive is revealing in this regard: "*As Canadians, we have a reputation for being a socially caring, tolerant and environmentally conscious people.*" The profile of *confirmed* or *well-reputed* companies fits those that enjoy a strong image and a good reputation.

### **5. DISCUSSION AND IMPLICATIONS**

The typology developed in this paper is meant to contribute to the understanding of the behavior of MNCs and their adaptation to the host countries using a multi-level analysis to seize the complexity of this phenomenon. As noticed by Ghoshal and Westney (2005), early work on MNCs focused on developing a typology of MNC structures and entry modes and on the problems of maintaining headquarters control over host country subsidiaries. Scholars working in this area identified organizational structures associated with strategies and developed a typology of MNCs (global, multi-domestic, and transnational). While the global strategy was presented as the exemplar of the successful international firms by leading figures such as Porter (1980, 1990), Prahalad and Doz (1987), Bartlett and Ghoshal (1989) presented the "transnational" strategy combining both the global and the multidomestic strategies as the most successful ones. This strategy can be captured by the motto: *think global, act local* commonly repeated in the field by many managers of MNCs.

For a while, the study of MNCs was dominated by economic-based theories (Xu, 2001). Scholars drew on transaction cost and agency theory to analyze the issues of MNC structure and governance (Anderson & Gatignon, 1986; Hennart, 1998; Chao, 2006; Rugman, 1981; Dunning, 1977, 1988). Doz and Prahalad spent 20 years developing a new paradigm to guide research on MNCs. They propose the global integration/local responsiveness framework, mainly influenced by the contingency theory and more specifically the concepts of differentiation and integration of Lawrence and Lorsh (1967) (Ghoshal & Westney, 2005). On their part, Ghoshal and Bartlett (1991) focus on intra-organizational analysis. They conceive the organization-environment interactions in the MNCs as a complex network of resource exchanges between MNC subunits and external actors. In their approach, little weight is given to the social environment. To overcome this limitation, "started in the field of International Business a growing appreciation of the importance of the institutional context and of the patterns in the way MNCs respond to that context" (Westney, 1993:60). Therefore, Westney focuses on institutional theory, which according to her "can facilitate a more theory-grounded analysis of current research questions, and raise interesting and important questions that have so far remained unaddressed" (Ghoshal and Westney, 2005:9).

As MNCs operate in multiple institutional environments and under multiple institutional pressures (Oliver, 1991), they must balance the tension between the legitimacy demands of the different institutional contexts in which they operate (Gardberg & Fombrun, 2006).

To help identifying the degree of similarity or dissimilarity between home and host institutions, Kostova (1996) developed the concept of institutional distance. This construct provides an alternative explanation for MNC behavior and decisions related to host country selection (location), foreign entry strategy (ownership) and the transfer of strategic orientations and organizational practices from parent firm to the foreign subsidiary (internalization) (Xu & Shenkar, 2002). Depending on the distance between the host and the home country, the cognitive, normative and regulatory dimensions are more or less constraining for MNCs and influence their behavior. In the same vein, previous research on adaptation from the perspectives of both market and institutions argue that, "in order to achieve fit with local environment, some degree of adaptation is advisable, and the need for adaptation increases as the institutional distance between source and recipient locations increases" (Jensen & Szulanski, 2004: 508).

However, given the results of our present study, we are entitled to raise an intriguing question: how to explain the variation of the degree of adaptation within the same institutional context among companies at almost the same level of institutional distance? The results of this research show that the three dimensions of institutional distance vary within the same context/country and do not exert the same pressures. From the sample of MNCs operating in Malaysia (same location), we observed different entry and ownership modes, different internalization choices and more specifically different levels of adaptation.

We argue, therefore, that the institutional distance, alone, does not explain the behavior of MNCs. We agree with Doz and Prahalad (2005: 43) according to whom "scholars of MNC management have under-exploited the theories available to them; they have put managerial relevance before theoretical elegance." In light of this, we propose a more integrated framework and a multi-level analysis taking into consideration all together economical (industry-level), organizational (firm-level) and contextual or social (country-level) factors. For that we use a cross-disciplinary approach drawing on contingency, institutional and CSR or stakeholder theories to better our understanding of MNCs' behavior.

## **6. CONCLUSION**

Scandals such as those that tarnished the reputations of Nike, GAP and Nestlé, along with increasing pressure from NGOs and public opinion, have put the practices of primarily multinational firms on the hot seat. Managers of these companies must be attentive to social considerations and the interests of various partners. It has become clear that it is no longer enough to simply *do things right*, they also need to *do the right thing*. To accomplish that, companies have been forced to think in terms of sustainable development and begin to develop a sustainability mindset. MNC managers are well aware of the importance of taking all the economic and social partners involved in their operations into account, and developing the image of a responsible corporation. Their firm's legitimacy and reputation depends on it. Nestlé learned that lesson the hard way, as one of its executives admits when saying: "these days, image is increasingly measured by the company's level of social responsibility."

That image is crucial for attracting investors, recruiting skilled employees, selling products to consumers, offering services to clients, and continuing to qualify for the operating permits issued by national and local authorities in host countries. All things considered, although the global impact holds sway in strategy development at MNCs, strong pressure at the local level can also compel a firm's attention in that process. Customer demands, the claims and regulatory requirements of local communities, and a national government watching over its country's development can all exert enormous pressures. Those pressures or local demands, far from constituting a brake on the firm's activities, can be seen as opportunities. Nestlé, for example, managed to build a competitive advantage from the Halal accreditation requirement imposed by Malaysia's government to meet the needs of Muslim customers. By conforming to that requirement, the company improved its image and developed a market outside Malaysia, becoming a "Halal accreditation centre" for the entire Asia region and exporting to other countries with a "Made in Malaysia" label. In 2002, Nestlé Malaysia's exports grew by 178 % over the previous year. By conforming to specific local needs and adapting its products to customer demands, Nestlé could and did make a profit, reconciling both its social and economic responsibilities.

As we have seen, MNC directors and managers are expected to be constantly juggling two sets of reasoning: one economic, which encourages standardization and globalization fostering company's efficiency; and the other social, requiring that the firm pay attention to local realities. *Think globally, act locally* becomes more than a motto. Managers are expected to make it their *leitmotiv*, continually adjusting operations to balance the global with the local, and the uniform with the specific. In summary, to develop and maintain a good performance, managers of MNCs must be aware of the economic and social needs of the context where they are operating. They are required to be partners in the national development process and besides generating added value to their business, to also add value to the host country by being more socially responsible.

At the theoretical level, we argue in this paper that institutional distance is not a sufficient explanatory factor for the variations in MNC behaviour. We provide evidence of variations across industries but within the same context (Malaysia). Given the complexity and multidimensionality of MNCs, their adaptation depends simultaneously upon firm-specific factors (ownership, business strategy), industry factors (activity sector) and country-specific factors (culture, social norms).

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