

How Multi-National Companies (MNCs) influence their environments in developing economies

MNCs play an important role in emerging economies. Able to provide a high level of financial investment in such economies, they are capable of influencing environmental issues to a very high degree. It has been argued that because of this, MNCs should demonstrate high levels of corporate responsibility in their approach to environmental issues.

A study by Child & Tsai (2005) focused on the environmental policies and practices of firms in the chemical sector in Taiwan and China. The chemical sector is especially useful to study in terms of its approach to the environment, due to the pollution risks such companies carry. Using a variety of data collection techniques, including document analysis and semi-structured interviews, the researchers examined how MNCs in this sector approached their environmental responsibilities, as compared to smaller, local firms in the same sector. These are some of their findings:

Institutional constraints

China has enjoyed high levels of foreign investment over the last 20 years. Because of the risks of losing this investment through over-regulation, the Chinese government has been unwilling to impose strict regulations on chemical companies. Nonetheless, environmental concerns are growing in China, with the consequence that the first prosecution for environmental pollution occurred in 1996. On the whole, the government imposes regulation through awarding compensation to bodies affected by pollution, rather than through legislation. Public lobbying, e.g. from non-governmental environmental groups is prohibited.

In contrast, Taiwan's economy is more firmly established and the country has fairly strict environmental controls in place. Taiwanese companies have invested heavily in China, and one of the consequences has been "pollution transfer", where companies that create pollutants relocate to mainland China where they are more free to do so without paying financial and other penalties.

Despite these differing overall contexts, MNCs have reputations that they need to protect, and cannot afford to jeopardise these by behaving irresponsibly and transferring pollution into countries whose regulations make it easier to do so. With the increasingly rapid diffusion of information and knowledge through the internet, communities and customers are becoming increasingly "savvy" about environmental issues, putting a great deal of pressure on MNCs to behave in an environmentally responsible manner. Paradoxically, therefore, it seems that MNCs are more constrained than are local firms, by the institutional environment, in as much as they seem more willing to comply with demands for environmental responsibility, despite having more financial and political clout than their smaller competitors.

Corporate Strategy

The researchers suggest that the greater compliance of MNCs is not as paradoxical as it appears, because, in fact, it is directly related to their overall strategy. For MNCs, safeguarding their global reputation is absolutely paramount. In the chemical industry, it is clear from history, that an environmental disaster in an emerging economy, can damage the company's standing both domestically, and with investors and customers. Such can be the metaphorical 'fallout' that the survival of the company can be put at considerable risk. The Bhopal disaster in India is a case in point. Moreover, much of the conformity to environmental pressures was found to stem from the activities of MNCs themselves and their networks with a variety of environmental stakeholders. MNCs frequently possess technical knowledge

regarding pollution and ways to deal with it or minimise it, which they communicate to relevant bodies and amongst themselves, Indeed, it is the interests of MNCs to ensure that smaller firms are subject to and coerced into complying with environmental regulations, because this ensures they cannot gain an unfair competitive advantage by ignoring environmental concerns. Thus far from passively responding to institutional pressures to conform to environmental regulations, MNCs actively help to create and reinforce these pressures.

Questions

1. Compare and contrast the utility of institutional theory, resource-dependency theory and population ecology theory for explaining the findings of this study.
2. How would you categorise the strategies that MNCs use to influence their environments (refer to Reflection Box 8.4)?
3. What implications does this study raise for the growth and impact of networked organizational forms?

Adapted from: Child, J. & Tsai, T. (2005) The dynamic between firms' environmental strategies and institutional constraints in emerging economies: Evidence from China & Taiwan. *Journal of Management Studies*, 42, 1, 95-125.