Institutionalization of MNEs' Sustainability Reporting: Progressing Toward the United National Sustainable Development Goals

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1 Introduction

The notion of sustainability in business practices has evolved over the last few decades (Linnenluecke & Griffiths, 2013). Historically, corporate social responsibility (CSR) was used to address organizational responsibilities toward employees' well-being and contributions to society (Carroll, 1979). In contemporary usage, *sustainability* captures activities that emphasize economic, social, and environmental issues and efforts to create equitable and fair working conditions devoid of discrimination (Husted, 2005; WCED, 1987).

Previously, CSR and sustainability-related activities were undertaken voluntarily and considered beyond the legal obligations that organizations had to fulfill. However, there has been a sense of urgency in dealing with sustainability-related issues (Bansal & Knox-Hayes, 2013). For example, the Intergovernmental Panel on Climate Change (IPCC) report published in 2021 warns that within a decade, global warming could push temperatures up significantly (IPCC, 2021). These developments have led to greater public awareness about the carbon footprint of human commercial activities. In addition, concerns about the planet's future have prompted organizations to disclose their operations' environmental and social impact.

Governments are taking initiatives to meet their commitments to reduce carbon emissions and improve their population's economic and social well-being at the national level. Business organizations are expected to comply with the relevant policies implemented by the institutions in these countries. This poses a challenge for multinational enterprises (MNEs) as the lack of global standards means that international firms must adapt their practices and report according to each territory's requirements. Furthermore, the poor implementation of the regulation in many

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developing economies has resulted in MNEs being accused of poor business practices, including unsafe working conditions and the use of child labor that have affected their global reputation and sales. This chapter highlights these issues and discusses how firms report their sustainability activities to communicate with various stakeholders worldwide directly.

2 Sustainability and the UN SDGs

The issue of CSR came to prominence in 1970 when Milton Friedman argued that the social responsibility of a business is to maximize the return for its stockholders. In discussing his stockholder theory (also known as the Friedman doctrine), Friedman opposed the idea of organizations taking on the responsibility of concerning themselves with the greater good of society (Friedman, 1970). This was in response to an initiative that General Motors had taken by setting up a committee that would study the company's performance in areas such as safety and pollution. Friedman contended that it is the responsibility of governments to address issues of public interest. Unless these initiatives were mandatory or part of the "rules of the game," organizations should not be undertaking them. If managers feel a personal desire to address these concerns, they should do so in their capacity as private citizens and not on behalf of the organization. For Friedman, the stockholder theory was a natural extension of his views on capital and opportunities for individual to maximize their benefits (Friedman, 1962).

In contemporary CSR literature, such a view is considered a straw man. While some critics may question the motivation of the firms in undertaking such activities, there is a consensus that organizations have a social responsibility and need to play a role in ensuring that their operations are sustainable (Hahn et al., 2017; Tregidga et al., 2018). Therefore, regardless of whether the term environmental management, CSR, or corporate sustainability is used, it is understood that sustainability incorporates the economic, environmental, and social perspectives (Burritt et al., 2020), and organizations must improve their performance along each of these dimensions (Shapiro et al., 2018).

At the institutional level, the United Nations (UN) is leading a significant effort to address sustainability issues under their Sustainable Development Goals (UNSDGs). In 2015, the UN member states adopted the 2030 Agenda for Sustainable Development, emphasizing 17 goals (United Nations, 2022). These goals cover several issues ranging from poverty reduction, addressing inequalities, general health and well-being, right to education, safe working conditions, and securing a sustainable future for the planet. Table 1 lists the 17 UNSGDs.

The COVID-19 pandemic has confirmed the significant inequalities between countries and their population, especially regarding access to vaccines for people living in developed versus developing economies. The impact of the pandemic on increasing inequalities and poverty, challenges of migration, and access to finance are issues that the UNSDGs are attempting to address. To achieve the stated objectives of the 2030 Agenda, various stakeholders need to take ownership of the

Table 1 United Nations sustainable development goals

1. No Poverty	2. Zero Hunger	3. Good Health and Well-Being	4. Quality Education	5. Gender Equality
6. Clean Water and Sanitation	7. Affordable and Clean Energy	8. Decent Work and Economic Growth	9. Industry, Innovation and Infrastructure	10. Reduced Inequalities
11. Sustainable Cities and Communities	12. Responsible Consumption and Production	13. Climate Action	14. Life Below Water	15. Life on Land
	16. Peace, Justice and Strong Institutions		17. Partnerships for the Goals	

Source: United Nations (2022)

implementation of the SDGs. MNEs' global networks make them an important player in promoting sustainability (Liou & Rao-Nicholson, 2021; Rygh et al., 2021). Some of the world's largest MNES have cash-flows and assets that exceed the gross domestic product of developed countries (Amba-Rao, 1993). Hence, they have the power to implement these goals in their operations and influence the relevant institutions and related policies in the countries where they operate.

However, MNEs face a myriad of challenges and criticism regarding CSR and sustainability practices (Kolk, 2010a, 2010b). Due to their sheer size and global recognition, they are also targets of greater scrutiny about their operations from a social justice perspective. One of the accusations leveled against MNEs is that they outsource and move their operations to countries that have fewer regulations regarding environmental standards, workers' safety, or working conditions, such as minimum wage rates. Hence, they are seen to be exploiting workers in poorer countries, and their actions lead to a "race to the bottom" (Burritt et al., 2020).

In their defense, MNEs argue that they comply with local standards and regulations set up by the institutions in the countries they operate. The United Nations Declaration of Human Rights states that equal work deserves equal pay and workers' rights need to be protected. However, there are no globally accepted standards for minimum wages or working conditions that can be followed. Instead, organizations either set standards that they follow worldwide or follow the rules and regulations of the host country. In either case, the monitoring and implementations of the CSR and sustainability practices are carried out by local staff and institutions.

Despite this defense, the choice of countries for the internationalization of manufacturing raises the most questions. Critics argue that MNEs choose to relocate manufacturing to countries that maximize their returns even though they are aware of poor working conditions and standards. Hence, the choice of markets is neither based on the notion of the home and host countries sharing low psychic or institutional distances but rather the cost of manufacturing that drives these decisions (Ambos & Håkanson, 2014; Brewer, 2007; Dow & Karunaratna, 2006; Evans et al., 2008; Hutzschenreuter et al., 2014, 2016; Johanson & Vahlne, 2009; Ojala, 2015; Sousa & Bradley, 2005; Tihanyi et al., 2005). Therefore, these managerial decisions seem to follow the Friedman doctrine of maximizing the stockholders' return as long as the actions are within the rules of the game. This makes the MNEs' claims of being socially responsible and emphasizing sustainability questionable. One way to address these concerns is for MNEs to communicate directly with the stakeholders (Freeman, 1984) by reporting their sustainability activities (Ike et al., 2021).

3 Sustainability Reporting and MNEs

The speed at which information technology systems have improved and adopted by the general population worldwide has been unprecedented. News and information about publicly listed organizations in much of the world remain largely free and easily accessible via electronic modes, replacing mediums like locally printed newspapers. Greater use of technology means that people, as the key stakeholder, are better informed of organizational activities than before, enabling them to judge the sustainability credentials of the firms. However, there is the risk that unchecked news stories or fake news about organizations may cloud the readers' judgment and influence their decisions as consumers of the firms' products.

Organizations can address this concern by directly communicating information about their sustainability activities to consumers and other key stakeholders. While reporting the firms' financial information is mandated, sustainability reporting remains voluntary in many countries. Despite this, we have witnessed a growth in reporting sustainability activities covering social and environmental information in the last few decades (Diouf & Boiral, 2017). This growing interest in sustainability reporting is a response to the demands by stakeholders for more transparency and accountability of how organizations undertake their business activities (Tagesson et al., 2013). Specifically, there has been growing stakeholder activism to ensure that organizations' activities are undertaken sustainably, and this information is transmitted through the organizational reports (Doh & Guay, 2006).

These developments have also prompted institutions, like the European Union (EU), to require organizations to produce nonfinancial and diversity information, which includes disclosures about environmental matters, social and employee aspects, respect for human rights, anti-corruption and bribery issues, and diversity in their board of directors (European Commission, 2016). In addition, in the United Kingdom, under the Equality Act of 2010 (Legislation.Gov.Uk, 2022), firms are required to report their gender pay gap information. For MNEs, these developments mean that in addition to producing consolidated financial statements, they also have to prepare specific reports and disclose their activities under the formal and informal institutional requirements and expectations in the territories where they operate (Lee et al., 2021).

Analyzing this issue from an institutional theory perspective, we can argue that the trend in reporting sustainability activities is set to continue. This growth can be explained by the isomorphism occurring at various levels (DiMaggio & Powell, 1983). For example, contemporary professional management training emphasizes decision-making that considers socio-economic and environmental impacts and reports the outcomes. This *normative isomorphism* can be observed at the micro/managerial level and emphasizes sustainability considerations as part of all business decisions.

At the meso level, we expect organizations to attempt to match other firms' sustainability reporting practices to demonstrate their credentials and ensure that they do not concede any competitive advantage. This *mimetic isomorphism* acts as a trigger for wider reporting of sustainability activities across industries. Finally, at the macro/country/institutional level, we are witnessing a renewed push by nations taking action to meet their sustainability goals. The Paris Agreement is one such example of a legally binding treaty addressing global warming challenges. Achieving the environmental targets requires social and economic transformation. The *coercive isomorphism* at this level has resulted in the introduction of laws and regulations that aim to ensure that the targets set by the countries can be achieved.

MNEs can be proactive and voluntarily report their sustainability practices to communicate with stakeholders or be reactive and report the practices in countries where the laws require them. A reactive approach is more likely to be met with cynicism from the wider community, especially since many developing countries are yet to mandate sustainability reporting. However, as we discuss later, MNEs have been some of the biggest contributors in developing and implementing reporting initiatives and systems such as triple bottom-line reporting. There are also sustainability reporting templates that MNEs can use to report their activities. One such option is using the Global Reporting Initiative (GRI) standards (Farneti & Rammal, 2013)

The GRI standards are seen to provide best practices for reporting organizational impact on the economy, the environment, and people (Milne & Gray, 2013). The GRI has a range of standards that can demonstrate impact (GRI, 2021). The Universal Standards apply to all organizations and emphasize transparency in organizational operations. In addition, these standards have a forward-looking approach that aims to help organizations be well-positioned to respond to emerging institutional mandated regulatory disclosure requirements, including the EU Corporate Sustainability Reporting Directive and the planned International Financial Reporting Standards (IFRS) initiatives to report enterprise value standards.

A more recent initiative is the GRI's Sector Standards reporting, which aims to develop standards for 40 sectors with the highest impact. Approved in 2019, the first sector standards were released in 2021 and covered the oil and gas standards. In using these standards, organizations can register and disseminate their reports through GRI's website and make them publicly available (GRI, 2021). The available reports include those produced by commercial organizations and an increasing number by public sector organizations facing similar calls for transparency from stakeholders, including the taxpayers (Farneti & Siboni, 2011).

The next section provides examples of MNEs highlighting the significance of stakeholder engagement in CSR and sustainability practices and its reporting.

4 Ethics, CSR, and MNEs

The International Business (IB) literature is littered with examples of MNEs being accused of unethical behavior. Before discussing some of these examples, it is important to clarify what is deemed ethical or unethical and differentiate between ethics and social responsibility. Although used interchangeably in many studies, ethics and social responsibility have different legal implications. Ethical decisions comply with laws and regulations (such as paying the minimum wage rate), and unethical decisions are those that do not. While people may make a moral judgment about a decision made by an organization, it has no legal standing in deciding whether it is ethical or unethical. In contrast, CSR activities are voluntary and do not have a legal requirement. This again confirms the view that while the Friedman doctrine is a straw man, it is still very much relevant to the way contemporary business activities are undertaken.

To illustrate the issues covered in the chapter, we discuss three well-known examples of MNEs' operation in developing countries: Shell in Nigeria, the Rana Plaza incident in Bangladesh, and the accusations of child labor leveled against Nike. Although the legal obligations and responsibilities of the MNEs in these cases can be questioned, there is no doubt over their CSR obligations. With the help of these examples, we demonstrate how MNEs have learned from their mistakes and how various reporting initiatives are used to communicate their CSR activities and their commitment to sustainability in business operations.

4.1 Shell in Nigeria

The Royal Dutch/Shell company has a long history in Nigeria, dating back to 1936 when the first Shell company in Nigeria was founded. In the 1990s, Shell expanded exploration and other activities in Nigeria (Shell, 2021). At the time, the country was being ruled by the military head of Nigeria, General Sani Abacha. Shell dealt directly with government officials, but their operations affected the local population. One of the groups affected was the Ogoni people, an ethnic minority in Nigeria whose homeland, the Ogoniland, is situated near the Niger Delta and was an area targeted by Shell for oil exploration. The Ogoni people protested Shell's operations due to the environmental degradation of the Niger delta and its impact on the local ecosystem and agriculture in the Ogoniland. The protests were led by Ken Saro-Wiwa, an environmental activist, who criticized both Shell for the environmental damage and the Nigerian government for failing to enforce environmental regulations.

The military government arrested Ken and his supporters on charges of inciting violence against other Ogoni chiefs who were murdered. After a generally compromised trial, Ken and eight of his colleagues were sentenced to death. There was worldwide condemnation of the ruling, and many activists asked Shell to play their part in seeking a pardon for Ken and his supporters. Although Shell claims to have made appeals to the military rulers, many observers questioned the sincerity of these efforts. Nevertheless, the sentence was carried out, and the nine accused were executed on 10 November 1995. In 1996, Ken's family started legal proceedings against Shell in the United States. In 2009, before the trial commenced, an out-of-court settlement was reached (Mouawad, 2009).

Shell faced worldwide criticism and consumer boycott. The company realized its biggest mistake in Nigeria was not engaging with the local population and relevant stakeholders. Learning from the experience, Shell took several steps to address its sustainability practices. The company launched its environmental and social reporting with "The Shell Report 1998," which marked the beginning for Shell to measure its operations against a "triple bottom line" of financial, social, and environmental factors. The company also restructured its operations in Nigeria, and from 2004 the top management positions have been occupied by local managers who understand the country's sociocultural, political, and institutional environment. These initiatives have improved Shell's standing in the community in Nigeria, and the social reporting initiative has enhanced the engagement with consumers and other stakeholders worldwide.

4.2 The Rana Plaza Accident in Bangladesh

Bangladesh is one of the world's leading manufacturers of ready-made garments (RMG), and the sector is a major source of the country's foreign income earning and employment. Due to the low-cost benefits that manufacturing in the country provides, many international brands outsource their apparel production to factories in Bangladesh. However, there have been concerns about working conditions such as the safety of the workers and gender inequality in Bangladeshi factories, with men positioned in leadership roles. In contrast, women employees work mostly on the factory floor.

These concerns about the working conditions in the Bangladesh RMG sector came to the forefront after the Rana Plaza incident in 2013, where over 1100 people died after the building, in which five garment factories were operating, collapsed (ILO, 2021). These factories manufactured for global brands, including Benetton, Prada, Gucci, Primark, and Walmart. The accident itself was a result of structural faults in the building. However, further investigations highlighted several issues that led to the building's collapse. This included extra floors being built, which was not approved in the original plan, using the premises as a factory when it was planned and designed for shops and residential use. The lack of safety checks relating to working conditions and building safety were also contributors to the tragedy. However, as with incidents involving well-known brands, the MNEs were blamed for failing to ensure safe working conditions even though they did not own the factories and legally were not liable for the accident.

The MNEs decided that it would be inappropriate to cancel the manufacturing agreements in Bangladesh as this would result in increased unemployment as factories would close. Instead, they worked with trade unions to agree to standards for working conditions that would be implemented in the factories and monitored by independent inspectors. As a result, in 2013 the *Accord on Fire and Building Safety* *in Bangladesh*, a legally binding agreement, was signed, covering more than 1600 factories that manufacture for more than 190 brands and employ over two million workers (Bangladesh Accord, 2021). Under the agreement, factories are inspected to ensure safety standards, identify areas for improvement, and implement safety remediation work to rectify any minor issues. The inspectors would temporarily evacuate the premises for major structural issues until the problems were fixed. These inspections have resulted in major improvements in the factories, with 84% of the factories fixing their electrical wiring and 97% of factories removing lockable or collapsible gates, which would make it easier for workers to escape the building in case of emergency. The evidence would suggest that the accord has successfully averted another accident in the RMG sector in Bangladesh, and the reporting mechanism ensures transparency about the processes followed.

4.3 Nike's Use of Child Labor

Nike is one of the most recognized global brands. The company's business model is based on keeping the research, development, and marketing functions in-house and outsourcing the manufacturing. Nike's decision to move the manufacturing to factories located in developing countries was criticized by workers' unions in the United States. In addition to their members' job losses, the unions claimed that child labor and low safety standards were widespread in manufacturing in many developing countries. Thus, Nike could potentially have their products manufactured unethically by outsourcing production to these countries.

In response, Nike claimed that the individual contracts with each factory clearly stated that child labor was prohibited and audits of the factories would be undertaken periodically to ensure compliance. In 1996, a Life Magazine article exposed the working conditions in one of the factories in Pakistan that manufactured Nike's shoes (Schanberg, 1996). The article included a photo showing a 12-year-old boy stitching leather panels on a soccer ball with the Nike swoosh visible. The article exposed Nike's claims of manufacturing without child labor. The article also claimed that the boy was paid 6 cents an hour to stitch the soccer balls, which Nike's critics pointed out as evidence that the company's products were being manufactured in sweatshops.

Nike pleaded ignorance and claimed that such issues were not found in any factory audits. Additionally, the factory also manufactured goods for companies other than Nike, and the local authorities should act against the factory for breaching the laws. However, as we have seen in the previous examples, such defense doesn't sway the wider community, which argues that with their large asset base and high profits, MNEs should be proactively working toward identifying and rectifying such issues rather than denying their responsibility.

Nike took immediate and long-term measures to address the issue of child labor in manufacturing. In the short run, Nike moved the children from undertaking labor-intensive tasks like stitching leather panels and moved them into other areas. The company also provided free education for all the children working at the factory. In the long run, Nike set standards for the factories contracted to manufacture for the company. A robust audit mechanism has been put in place. Factories are warned if their performance starts to wane. Failure to remedy their performance can result in the factory's contract being terminated. Nike uses the GRI standards and makes its reports available freely. The reports also reference the UNSGDs and the United Nations Global Compact (UNGC) Principles. The company acknowledges their mistakes in the past in labor conditions and explains how they have rectified them as part of their global supply chain systems. So confident are Nike of their monitoring system that they publish the details of their factories in the reports and website.

The Nike incident, and similar ones involving other sports manufacturers like Reebok, resulted in a fundamental change in the manufacturing of sports goods, especially soccer balls. The stitching of soccer balls was eliminated from the process. The 2006 FIFA World Cup in Germany saw the introduction of balls using various technologies such as thermal bonding of panels.

5 Conclusion

This chapter covers the evolution of responsible management in MNEs and the various reporting initiatives. We have witnessed a move from a narrower CSR focus to a more defined sustainability emphasis that captures the economic, social, and environmental concerns. The enhanced emphasis on sustainability in MNEs has been triggered by two developments: the rapid growth of information technology and the adverse environmental effects of human activities.

The information technology revolution means that MNEs' operations are no longer viewed within the domestic or regional institutional context. While compliance with local regulations is necessary, stakeholders can access organizational information globally. Hence, the reporting of sustainability activity (Schaltegger & Burritt, 2010) needs to detail the impact of the MNEs' activities at the domestic, regional, and global levels. In addition, the second trigger of climate change has brought about a sense of urgency to how the world deals with environmental issues and the role that MNEs can play.

The three examples that we covered demonstrate why MNEs need to look beyond their legal obligations and consider their CSR and sustainability activities. While meeting legal responsibilities ensures that MNEs are operating within the rules of the game, the heightened stakeholder activism that we are witnessing today means that firms need to consider their obligations to society. We see from these examples that the MNEs involved changed their operations and reported their sustainability activities to engage directly with all stakeholders. However, it should be noted that these changes were a reactive response from the MNEs rather than a proactive one. Had these incidents not taken place and the institutional efforts to set standards for sustainability not been on the agenda, the MNEs may not have made these changes. Future sustainability practices and reporting changes should grow organically, and MNEs should proactively take actions to support these activities.

To achieve this, MNEs need to constantly scan the environment to preempt potential labor and supply chain challenges. A recent example of this is the COVID-19 pandemic. While the world became aware of the virus' spread and the potential challenges to the global mobility of workers and goods, a practical solution was not forthcoming. As a result, even a few years since the pandemic began, unemployment is at a record high in many countries, school education has been disrupted, and MNEs' supply chains face delays, leaving many store shelves bare.

Despite the growing awareness among the populations globally of sustainability and the impact of business and other activities, there is still much to do to improve practice. Having improved the reporting of sustainability activities, the next step for MNEs is to move from having transparency about operations toward achieving the sustainable development goals. This requires consensus on standards and expectations that consider the social, economic, and environmental concerns of developed and developing countries and can be applied globally without exception. The role of global institutions is critical in achieving this. Like the UN, a global umbrella body could be a feasible option to bring together national governments, leading MNEs, institutions, and other stakeholders together to develop such standards.

These global standards bodies would also need to form independent sustainability audit options (Liu et al., 2020) to ensure that MNEs comply with the agreed standards and don't merely make claims or window-dress their activities. This issue is evident in the current reporting system, where MNEs work on fairness, justice, and equality. Yet, reports from Transparency International show that public sector corruption remains a major concern in many developing economies. For example, reporting gender imbalance in organizations in the United Kingdom and other parts shows that year-on-year firms acknowledge the imbalance but do not highlight any practical steps to rectify the problem. Unless it can be demonstrated that certain actions are being taken, MNEs will be merely identifying the problem without being part of the solution.

Based on the observations made in the chapter, we provide an agenda for future research. The rise of emerging market MNEs (EMMNEs) makes for an interesting context (Golgeci et al., 2021). It is assumed that the institutional environment in emerging markets is still in its infancy (Doh et al., 2015). Hence, the minimum sustainability standards followed by EMMNEs in their home markets are lower than those applied in developed economies. Future research can address this issue by exploring how EMMNEs adjust to the differences in the institutional environment? Does it affect their operations in the host markets? How do they report the differences in their sustainability activities across countries?

Other areas of study include exploring how the harmonization of reporting sustainability practices can be achieved. This would ensure global consistency in reporting practices and facilitate comparing MNEs' sustainability performance by stakeholders.

In concluding this chapter, we observe that our examples suggest that the legal system governing business practices follows the Friedman doctrine. However, in practice, even if MNEs prioritize the stockholders' return, it makes economic sense to be engaged with promoting sustainability practices. This is because the modern consumer considers a range of information before purchasing from an organization. This includes the sustainability credentials of the organization, information about the production methods, the well-being of the workers and working conditions, and so on. Hence, MNEs that fail to proactively engage and be sustainable in their operations will lose their customer base to their more engaged competitors.

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