

Strategic CSR Responses To Subsidiary And Supplier Misconduct: A Network Perspective Of Multinationals

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Abstract. *This qualitative literature review explores strategic corporate social responsibility (CSR) responses to subsidiary and supplier misconduct from a network perspective within multinational corporations (MNCs). The study synthesizes findings from scholarly articles to examine how MNCs manage ethical challenges across global supply chains. Key themes include proactive CSR strategies, stakeholder engagement, governance mechanisms, and the integration of digital technologies. The review underscores the importance of ethical sourcing decisions and firm-centric CSR practices in mitigating reputational risks and fostering sustainable business practices. While acknowledging regional variations and data limitations, the review identifies opportunities for future research, including longitudinal studies and the role of emerging technologies in enhancing supply chain transparency.*

Keywords : *CSR, multinational corporations, supply chain management, subsidiary misconduct, supplier misconduct*

1. INTRODUCTION

Managers of multinational corporations increasingly recognize the significance of Corporate Social Responsibility (CSR) not only as a moral imperative but also as a strategic tool that can confer multiple benefits. CSR has been associated with competitive advantage (Flammer, 2015), enhanced employment attractiveness (Turban & Greening, 1997), bolstered legitimacy (Marano & Kostova, 2016), and improved financial performance (Cuervo-Cazurra et al., 2023). Scholars have extensively explored various drivers of CSR, such as financial analyst coverage (Qian et al., 2019) and institutional contexts (Ioannou & Serafeim, 2023). However, the role of multinational corporations' (MNCs) global value network partners in influencing CSR remains underexplored (Hartmann & Moeller, 2014; Kim & Davis, 2016; Wang & Li, 2019; Zhou & Wang, 2020), despite stakeholders' expectations for MNCs to be accountable for their partners' conduct (Kolk, 2016; Narula et al., 2019).

This study examines how misconduct within MNCs' value networks, including subsidiaries and independent suppliers, impacts their CSR performance. Misconduct is defined here as unethical behavior or transgressions that harm stakeholder interests (Cuervo-Cazurra et al., 2021), while CSR performance refers to the ability of firms to meet stakeholder expectations regarding environmental, social, and corporate governance responsibilities (Carroll, 1979). Integrating the network perspective of MNCs (Ghoshal & Bartlett, 1990) with the risk management view of CSR (Godfrey, 2005), we posit that significant misconduct within

MNCs' value networks—both from subsidiaries within the intra-firm network and independent suppliers within the inter-firm network—can lead to improvements in CSR performance. This occurs because such misconduct not only necessitates corrective actions specific to the erring party but also damages the MNC's reputation and stakeholder relationships, prompting broader reforms in network-wide practices that enhance CSR performance and rebuild stakeholder trust.

2. LITERATURE REVIEW

Corporate Social Responsibility (CSR) has been widely debated as either a tool for competitive advantage or as a strategic response to mitigate risks such as reputational damage (Delmas & Burbano, 2011; Vishwanathan et al., 2020). Employee perception of CSR has a positive effect on employee creativity, and ethical leadership has a positive effect on employee creativity (Wajong et al., 2020). Scholars argue that CSR serves as a strategic tool to enhance competitiveness through improved reputation and increased revenue (Flammer, 2015; Lev et al., 2010; Turban & Greening, 1997). CSR has negative impact to accrual earnings management and positive impact to real earnings management through cash flow operation and they're not significant (Kumandang, C., & Hendriyeni, N., 2021). This perspective views CSR as pivotal in attracting talent, legitimizing operations, and enhancing overall performance (King & Lenox, 2001; Marano & Kostova, 2016).

Moreover, CSR also functions as a risk management tool, mitigating costs associated with potential threats to corporate assets (Godfrey, 2005; Shiu & Yang, 2017). By investing in CSR, firms can accumulate moral capital that buffers against negative associations during crises (Fombrun et al., 2000). This dual perspective categorizes CSR into proactive "build reputation" and reactive "build legitimacy" strategies, aimed at preemptively shaping stakeholder perceptions and recovering from reputational damage, respectively (Klein & Dawar, 2004; Williams & Barrett, 2000).

Multinationals, managing extensive value networks through subsidiaries and suppliers, face complex dynamics that influence CSR strategies. Subsidiaries, managed directly through ownership or joint ventures, and suppliers, managed via contracts, each play distinct roles in the multinational's global operations (Ghoshal & Bartlett, 1990; Tallman & Yip, 2009). Subsidiaries handle core operations, fostering intra-firm networks that impact corporate governance and performance (Andersson et al., 2002; Brouthers, 2013). Conversely, suppliers manage non-core activities, critical for maintaining flexible network configurations that optimize cost and efficiency (Zhao et al., 2004; Brahm & Tarzijan, 2014).

In response to misbehavior within these networks, multinationals adopt a two-stage approach: first, addressing specific misconduct through subsidiary or supplier-focused remediation, and second, managing resultant reputational damage through broader CSR initiatives (Surroca et al., 2013; Wang & Li, 2019). Remediation efforts include internal investigations, operational changes, and stakeholder engagement aimed at restoring trust and credibility (Zhou & Wang, 2020). For instance, when faced with significant misbehavior, multinationals may implement stringent monitoring systems and cultural reforms to enhance internal controls and ethical standards (Forsgren & Holm, 2021).

Major misbehavior among subsidiaries or suppliers significantly impacts multinational reputation and stakeholder trust (Ravasi et al., 2018). The severity of misbehavior dictates the extent of reputational damage, with major incidents triggering widespread stakeholder scrutiny and potential long-term consequences (Lange et al., 2011). High-profile cases, like the environmental disaster involving Vale's subsidiary in Brazil, underscore the global repercussions of corporate mismanagement on multinational reputations (BBC News, 2021).

To mitigate such risks, multinationals engage in comprehensive CSR strategies that integrate home-country mandates and global standards to foster sustainable relations with stakeholders (Benito et al., 2019). These strategies not only manage immediate crises but also embed long-term resilience within the multinational's operational framework (Cuervo-Cazurra & Dieleman, 2021). For example, Alcoa's implementation of an Integrity Line following a bribery scandal illustrates proactive measures to prevent future misconduct and enhance corporate governance (Alcoa, 2014; Bloomberg, 2017). Effective corporate governance and sustainable leadership will help a company perform much better (Kusnanto, E., 2022).

3. METHODS

To conduct a comprehensive qualitative literature review on corporate sustainability in multinational supply chains, we followed a systematic approach to identify and analyze relevant scholarly articles. The methodology involved several key steps. We utilized academic databases to identify peer-reviewed articles, books, and reports published up to 2023. Keywords included "corporate sustainability," "multinational corporations," "supply chain management," and "legal and societal pressures.". Articles were selected based on their relevance to the intersection of legal and societal pressures affecting corporate sustainability practices within multinational supply chains. Only studies providing empirical data or theoretical insights directly related to our focus were included. Data extraction involved systematically extracting information on key themes such as regulatory compliance,

stakeholder engagement, and the integration of sustainability into corporate strategy. Synthesis focused on identifying commonalities, contradictions, and emerging trends across the selected literature. Through thematic analysis, we categorized findings into themes such as regulatory frameworks, stakeholder expectations, and the role of corporate governance in promoting sustainable practices. Critical analysis was conducted to assess the implications of legal and societal pressures on corporate decision-making within multinational supply chains. Findings were integrated to construct a coherent narrative that elucidates the dynamic interactions between legal mandates, societal expectations, and corporate responses in fostering sustainable supply chain practices. This integration aimed to provide a nuanced understanding of the challenges and opportunities faced by multinational corporations in achieving sustainability goals.

4. RESULTS

The study of strategic corporate social responsibility (CSR) responses to subsidiary and supplier misconduct within multinational corporations (MNCs) reveals a complex interplay of organizational strategies and stakeholder management practices. This qualitative literature review synthesizes existing research to explore how MNCs navigate and respond to instances of misconduct in their subsidiary and supplier networks, adopting a network perspective. Misconduct within subsidiary and supplier networks presents significant challenges to MNCs, ranging from ethical lapses to legal violations. Subsidiaries and suppliers, operating in diverse regulatory environments, may engage in practices that conflict with corporate values or legal standards (Jones & Levy, 2017). Such misconduct can tarnish corporate reputation, disrupt supply chains, and pose regulatory risks, necessitating prompt and strategic responses from MNC headquarters.

Effective CSR responses to misconduct involve proactive measures aimed at mitigating risks and restoring stakeholder trust. MNCs often deploy strategies such as enhanced monitoring and auditing protocols to detect and address misconduct early (Yin & Kotha, 2020). Moreover, collaborative efforts with stakeholders, including NGOs and industry associations, facilitate the development of industry-wide standards and practices that promote ethical conduct across subsidiaries and suppliers (Sethi & Sama, 2018).

Adopting a network perspective elucidates the interconnectedness of MNCs with their subsidiaries and suppliers. Networks amplify the impact of misconduct, necessitating coordinated responses that extend beyond individual entities (Hillman & Hitt, 1999). MNCs

leverage their network position to influence supplier behavior through contractual obligations, capacity-building initiatives, and sustainability requirements (Kolk & Van Tulder, 2010).

5. DISCUSSION

The qualitative literature review on strategic CSR responses to subsidiary and supplier misconduct within multinational corporations (MNCs) provides valuable insights into the complex dynamics and strategic considerations involved in managing ethical lapses and regulatory risks across global supply chains. This discussion synthesizes findings from recent studies while comparing and contrasting them with earlier research to highlight the evolution and current trends in CSR practices.

Evolution of CSR Responses.

Recent research underscores the evolving nature of CSR responses, emphasizing proactive measures by MNCs to address misconduct promptly and effectively. For instance, Yin and Kotha (2020) argue that preferential sourcing decisions can serve as a strategic tool to manage supplier misconduct, influencing supplier behavior through economic incentives. This approach contrasts with earlier studies that primarily focused on reactive measures, such as post-event audits and corrective actions (Jones & Levy, 2017).

Comparative Analysis of Strategic Approaches.

A comparative analysis reveals shifts in strategic approaches adopted by MNCs in response to subsidiary and supplier misconduct. Sethi and Sama (2018) highlight the emergence of firm-centric CSR initiatives aimed at integrating ethical considerations into supply chain management practices. This contrasts with earlier perspectives that viewed CSR primarily as a compliance-driven activity to mitigate reputational risks (Hillman & Hitt, 1999).

Stakeholder Engagement and Collaborative Initiatives.

Stakeholder engagement and collaborative initiatives emerge as critical components of effective CSR responses. Kolk and Van Tulder (2010) advocate for industry-wide standards and collective action to address systemic issues within global supply chains, fostering a collaborative approach among MNCs, NGOs, and government agencies. This collaborative paradigm contrasts with earlier studies that emphasized unilateral actions by MNCs without broader stakeholder involvement (Porter & Kramer, 2006).

Network Perspective and Governance Mechanisms.

The adoption of a network perspective elucidates governance mechanisms that facilitate transparency and accountability across MNC subsidiaries and supplier networks. Hillman and Hitt (1999) argue that MNCs leverage their network position to implement robust governance

frameworks, enhancing oversight and compliance with ethical standards. This contrasts with earlier studies that focused predominantly on hierarchical control mechanisms within MNCs (Gugler, 2003).

Emerging Challenges and Future Directions.

Despite advancements in CSR practices, emerging challenges such as regulatory complexity and cultural differences present ongoing hurdles for MNCs. Future research should explore innovative approaches to enhance cross-cultural understanding and regulatory compliance within multinational supply chains (Yin & Kotha, 2020). Moreover, the integration of digital technologies and data analytics offers promising avenues to enhance transparency and real-time monitoring of supplier behaviors (Sethi & Sama, 2018).

6. CONCLUSION

The qualitative literature review on strategic CSR responses to subsidiary and supplier misconduct within multinational corporations (MNCs) reveals several key insights into the evolving landscape of corporate social responsibility. This study underscores the importance of proactive measures and collaborative approaches in managing ethical lapses and regulatory risks across global supply chains. MNCs are increasingly adopting a network perspective, engaging stakeholders and implementing robust governance mechanisms to uphold ethical standards and enhance transparency.

The review highlights that strategic CSR responses involve not only compliance-driven actions but also proactive initiatives such as preferential sourcing decisions and firm-centric CSR practices. These approaches are aimed at influencing supplier behavior, fostering sustainable business practices, and mitigating reputational risks. Moreover, the integration of digital technologies offers new opportunities for real-time monitoring and data-driven insights into supplier conduct, enhancing the effectiveness of CSR strategies.

7. LIMITATION

Despite the comprehensive analysis, this review acknowledges several limitations inherent in the current literature and methodology. **Regional and Sectoral Variations:** The effectiveness of CSR responses may vary significantly across different regions and industry sectors, influenced by varying regulatory frameworks, cultural norms, and market dynamics. The reliance on secondary data sources and case studies limits the generalizability of findings. Future research could benefit from primary data collection and longitudinal studies to validate the effectiveness of CSR strategies over time. Despite the comprehensive analysis, this review

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CSR practices continue to evolve in response to changing stakeholder expectations, regulatory pressures, and market conditions. This dynamic nature necessitates ongoing research to capture emerging trends and best practices. Global supply chains are increasingly complex, involving numerous stakeholders across multiple jurisdictions. Understanding and effectively managing subsidiary and supplier misconduct require nuanced approaches tailored to specific contexts.

Future research should focus on addressing these limitations by conducting comparative studies across diverse geographical regions and industry sectors. Longitudinal studies could provide insights into the long-term impacts of CSR strategies on business performance and stakeholder relations. Additionally, exploring the role of emerging technologies, such as blockchain and artificial intelligence, in enhancing transparency and accountability within supply chains represents a promising avenue for future research.

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