Corporate Sustainability Assessments: MNE engagement with sustainable development and the SDGs

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The recent introduction of the Sustainable Development Goals (SDGs) calls for an understanding of how multinational enterprises (MNEs) engage with sustainable business practices and how the SDGs may be better implemented by the private sector. Through an examination of 112 MNEs operating in the region of the Association of South-East Asian Nations, this study focuses on evaluating sustainable business practices through the lens of a corporate sustainability assessment framework. The results show that headquarters commitments of MNEs to international sustainability standards and guidelines had a key influence on their sustainability practices. These commitments included the use of tools such as the materiality analysis to identify and prioritize sustainability issues of importance to the MNE and its stakeholders and reflects a focus at the local level of the subsidiary that was in alignment with the corporate strategies of company headquarters. The results of this exploratory study suggest that it is through the use of these international sustainability standards and guidelines (such as the Global Reporting Initiative standards) that a greater consideration and incorporation of SDGs within MNE practices can be achieved. These standards and guidelines are both well accepted and already adopted by MNEs, and have an important influence on what sustainability issues and goals they consider within their operations.

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1. Introduction

Sustainable development has long been recognized internationally as an objective for governments, businesses and civil society (Donovan et al., 2016; UN, 2012; UNCTAD, 2012). The recent introduction of the 2030 Agenda for Sustainable Development by the United Nations (UN), along with the 17 Sustainable Development Goals (SDGs), has served to reinforce a call to action by the global community to work for the collective benefit of people, planet and prosperity. Yet despite the emergence of the SDGs, the focus on sustainable development is not a new pursuit.

Recent global actions and initiatives illustrate a focus on sustainable development through government regulations, intergovernmental and non-government initiatives, and voluntary action from the private sector. Regulatory and civil society initiatives range from the European Commission's Directive 2014/95/EU, which requires the private sector to better report on their sustainability (non-financial) performance, to international frameworks from the United Nations Global Compact (UNGC) to the Global Reporting Initiative (GRI) and the OECD Guidelines for Multinational Enterprises, which seek to engage the private sector in the pursuit of sustainable development and more ethical practices.

These initiatives have not been without outcomes, with evidence suggesting that the private sector is increasing engagement with and reporting on their activities to address sustainable development and sustainability. KPMG (2015) reported that in 2015 approximately 71 per cent of 4,100 companies across 41 countries were undertaking corporate responsibility reporting. Of the largest 250 companies in the world, more than 90 per cent release sustainability reports, with the majority (over 80 per cent) having adopted GRI guidelines.

These government initiatives and a growing private sector engagement no doubt reflect a global move towards business practice that engages with sustainable development; however, little remains known about how organizations translate SDGs into their sustainability practices, particularly in developing countries, or how these businesses go about identifying and addressing different sustainability issues. This is highly problematic given the significance of the private sector contribution towards sustainable development within these countries and can often have a profound impact on development progress.

With the adoption of the SDGs having occurred only in 2016, we have yet to see how MNEs specifically address them. The private sector is a critical actor in achieving the SDGs, so therefore learning more about the dynamics between MNEs and host countries with respect to sustainability is important. This paper will specifically engage in this pursuit, presenting the results from an exploratory study on how MNEs are engaging with sustainable business practices through the lens of a corporate sustainability assessment framework.

2. Background context

2.1. The role of FDI in sustainable development

Broadly speaking, growing evidence suggests that MNEs are making efforts to contribute to the achievement of sustainable development through their commercial endeavours, including foreign direct investment (FDI) into developing countries. The mobilization of trade and FDI are key activities contributing to broader economic growth and the sustainable development agenda (Cadeddu, Donovan and Masli, 2013; Donovan et al., 2016). The relationship between FDI and MNEs with respect to sustainable development is critical to understanding the impact that they have on sustainable development outcomes and whether it is positive or negative (OECD, 2002; UNCTAD, 2015).

Of the most commonly cited studies on FDI effects in ASEAN countries, Donovan et al. (2016) point out that although FDI tends to be described as a driver of economic growth and development, the extant literature shows that the relationship between FDI and development is dubious. "There is the assumption that FDI will benefit a nation's economic prosperity and its people's quality of life, and its overall sustainable development; yet, there remains a significant gap in determining the positive benefits of FDI for developing economies without sufficient evidence to support this relationship" (Donovan et al., 2016, p. 6).

The contestable relationship between FDI and sustainable development presents significant challenges in the achievement of the latter, not just from the perspective of investment management and government policies but also for increasing public sector engagement. A clear priority for policymakers is a focus on enhancing the positive effects from the investment and reducing or minimizing the negative effects. There is no doubt, though, that it is difficult to determine the effects from FDI and, therefore, how to manage the relationship between FDI and sustainable development to ensure positive outcomes for the community and the MNEs involved.

2.2. Corporate sustainability assessments: A lens to examine MNE engagement with sustainable development and the SDGs

One key method gaining momentum for addressing the private sector sustainability challenge is the use of impact assessments. Impact assessments are "a planning tool that enables the assessment and adjustment of business activities to address associated issues and impacts across environmental, social and economic dimensions (for example, see Lion, Donovan and Bedggood, 2013; Arce-Gomez, Donovan and Bedggood, 2015)" (Donovan et al., 2016, p. 7). Impact assessments have gained prominence since the emergence of environmental impact assessments (EIAs) in the 1970s. With EIAs now mandated in over 191 countries, there is increasing use of social, health and cultural impact assessments across the globe (Morgan, 2012; Pope et al., 2013).

Sustainability assessments build upon the common feature of impact assessments but extend it to having a broader focus on all three aspects of sustainable development – environmental (planet), social (people) and economic (prosperity) (Donovan et al., 2016). Sustainability assessments are driven by the private sector and are commonly conducted on a voluntary basis as opposed to the regulatory context that exists for other impact assessments such as EIAs and social impact assessments (Donovan et al., 2016). Thus, sustainability assessments are reported to offer a range of sustainability benefits; however, according to international experts (Bond, Morrison-Saunders and Howitt 2012; Pope et al., 2013), they also have their shortcomings.

In particular, the voluntary nature of conducting sustainability assessments, as with other sustainability-based activities by the private sector, can potentially lead to selective interpretation and reporting of sustainability performance outcomes, including enabling the potential of greenwashing (Hahn and Lülfs, 2014). This potential weakness has been particularly linked with the reporting of outcomes from performance that may be less than ideal. Although we recognize the shortfalls that can be evident in organizations that may use these tools selectively to portray an acceptable corporate image, our focus is on the general management practices that are associated with these tools, which enable a greater move towards actively considering sustainable development through a business perspective.

Using a corporate sustainability assessment framework of MNEs in the ASEAN region, we gained unique insight into the sustainable business practices of the private sector. This exploratory research provides an opportunity to better understand the systematic efforts of the private sector, and specifically MNEs, in engaging in FDI, and how they address sustainability and sustainable development as part of their business activities.

3. The sustainability practices of MNEs across ASEAN

3.1. Methods

Building from a project in which we investigated the sustainability practices of MNEs across six countries in ASEAN, including Myanmar, the Lao People's Democratic Republic, Indonesia, the Philippines, Indonesia and Viet Nam, here we briefly investigate the sustainability practices of 112 MNEs that had undertaken investment in the region. The data collection for this research was undertaken from 2013 to 2016. Almost 45 per cent of the MNEs within the sample are from the manufacturing sector, followed by 16 per cent in the finite (non-renewable) resources sector and another 15 per cent in the services sector. The remaining MNEs were from three sectors: development and construction (5 per cent), utilities (9 per cent) and renewable resources (10 per cent).

Within the broader context of investment entering the region, approximately 58 per cent of the MNE affiliates in this sample were classified as large; that is, with more than US$100 million investment. Thirty-three per cent were considered to fall within the small-to-medium enterprise category (US$10–99 million), and 9 per cent were small (below US$10 million) investment. Thirty-eight per cent of MNEs were from North East Asia, followed by 19 per cent from ASEAN, 15 per cent from Europe, 13 per cent from North America, 11 per cent from Australasia and 3 per cent from South Asia and other regions.

MNE affiliates within the sample were selected to provide insights into the key sectors of each country participating. This effort included looking at the key investment areas in each country and selecting the top three sectors. MNE affiliates were selected on the basis that they were considered as forms of FDI, with a parent organization possessing a controlling stake in the operations of the organization in each country. For all six countries involved, the potential participants were first identified from government-registered lists of FDI, before being refined to reflect the consideration of sector and size. Preference was given to the selection of large MNE affiliates, to reflect the composition of investment size in each country and the likelihood that more detailed sustainability practices would be evident to allow in-depth insights to be garnered on their practices.

A majority of participating MNEs had at least four interviews with key personnel from the parent company and affiliate operations, although 29 per cent (33 organizations) refused to participate at the parent-company level. Respondents from parent-company operations were principally at the executive level in either corporate governance or sustainability roles. Respondents from MNE affiliates were selected from three levels within each organization, including one from the senior executive level (i.e. C-level officers), one from the operational level (e.g. factory manager) and one from a sustainability-related function (i.e. community relations officer or manager, corporate communications manager or health, safety and environment officer).

Given the exploratory nature of the research, semi-structured interviews were conducted with these respondents. The interview schedule was organized around open-ended questions related to a corporate sustainability assessment framework (see for example, Donovan et al., 2016). Topics related to how organizations (both parent company and affiliate) selected sustainability issues to address, impact analysis approaches, monitoring and evaluation techniques, and alternative selection strategies to address impacts. Documentary analysis was also conducted on internal (including company reports) and external (including government reports and news reports) mediums, to triangulate the interview data. Interviews were transcribed verbatim and were entered with other data sources into the qualitative data analysis software package NVivo. All document sources were coded in NVivo using open codes linked with the corporate sustainability assessment framework.

3.2. The sustainable business practices

Across the 112 MNEs (parent company and affiliate), many expressed substantial commitments towards addressing sustainable development. These efforts were often directly related to addressing the broad objectives established by the Millennium Development Goals (MDGs), the precursor to the SDGs. Although this investigation does not capture the emergence of the SDGs as the new international development objectives, the responsiveness of these MNEs to international objectives such as the MDGs suggests the likelihood that, with the introduction of the SDGs, a shift will occur within these MNEs to address these new objectives.

International conventions, principles or standards played a significant role in influencing MNEs within our study to adopt sustainability practices. Overall, approximately 56 per cent of the 112 MNEs (parent company) within our study identified a key international guideline or standard (or a combination) as the guiding point of reference for their sustainability policies. These policies were primarily developed and established at the parent company level, and filtered down in various forms into the divisions and across their affiliate operations in ASEAN (as well as their other global affiliates). The international standards or guidelines were predominantly linked with four key sources: the GRI standard, the UNGC principles, the Carbon Disclosure Project (CDP) and ISO26000.

The use of GRI standards in directing sustainability practices was clearly apparent, with 45 per cent of the sample adopting them. Despite the prevalence of this standard, MNEs often adopted it in parallel with other sustainability standards or guidelines such as the UNGC Principles (22 per cent) and the CDP (23 per cent). Beyond these four broad categories, 44 per cent of MNEs also utilized some other type of standard to direct their practices, including various ISOs, and industry-specific standards such as the International Council on Mining and Metals, the Electronic Industry Citizenship Coalition and the London Benchmarking Group and Forestry Alliance.

Although it was apparent that at the parent-company level a prevalence of standards and guidelines were being utilized, this was not the case when looking at the affiliate level and how parent-company use directed the practices within each country. Less than 24 per cent of all MNEs were comprehensively translating sustainability policies and reporting practices from parent-company operations into systematic practices at the affiliate level within ASEAN. This was particularly the case when looking at the practices of identifying pertinent and locally relevant sustainability issues. These data suggests further work needs to be done to ensure the translation of international standards and guidelines into local subsidiary sustainability practices – a process that could be enhanced with the introduction of the SDGs. The review of SDGs that is expected to be performed at national and regional levels will provide MNEs with clarity about what critical sustainability issues exist at the local level and how they might address them.

Of particular interest with the adoption of some of these standards or guidelines were the methods used to address sustainable business practices. Although there was a dominance of quantitative and technical (scientific methods implemented by discipline experts) methods, there was also evidence of qualitative and participatory (stakeholder engagement and input) methods for the identification, refinement and engagement of key sustainability issues. Participatory, external engagement with government authorities, supply-chain actors, communities and third-party organizations were all helping to feed information into decision-making and planning processes to better focus MNEs on important sustainability issues.

Materiality analysis emerged as a key method to aid in the process of determining, refining, defining and prioritizing sustainability issues. Materiality analysis aims to identify and prioritize the most material or most important sustainability issues across key stakeholder groups (internal and external) linked with the MNE's business operations (at both parent and affiliate levels). These issues can be captured through both quantitative and qualitative data – from technical and participatory collection methods, across various internal and external sources – into a single, structured, easily digestible outcome. Within our analysis, we found a strong emphasis on the qualitative stream, with stakeholders – both internal and external[1] – consistently highlighted as the centrepiece of this method. This approach assigns significance to the sustainability issues identified by the stakeholders.

In order to conduct a materiality analysis, a number of different structures were identified across the sample. Most highlighted that the process involved external consultants, non-governmental organizations and auditors. These parties were seen to participate in varying capacities, from aiding internal teams in stakeholder identification to more large-scale contributions such as design, implementation and oversight of the entire process. The most frequently identified approach involved a mixture of internal and external personnel forming a team to conduct the materiality analysis. Also noted was auditing by external firms for checks and validation of whether the MNEs (at both the parent and affiliate levels) actually adopted and addressed these sustainability issues, identified from both the materiality analysis and their international commitments to sustainability standards and guidelines.

Of further interest was the finding that approximately 57 per cent of MNEs (at parent and affiliate levels) across the sample had extended the scope of their sustainability practices beyond their internal operations to focus on their value chain. In some cases, the suppliers of the MNEs were externally audited regularly in an effort to

[1] Stakeholders are more commonly cited as external, including local communities, non-governmental and not-for-profit organizations, and actors in the supply chain (such as farmers and growers). Involved internal stakeholders include employees.

ensure a maintained and continued level of compliance. A closer examination of the MNEs who initiated this practice (57 per cent of the sample) showed that several key approaches were adopted when directing sustainability activities in their value chain. About 82 per cent of them adopted some type of policy within their supply chain related to human and workplace rights to address major social and health considerations of their workforces. Furthermore, about 70 per cent of MNEs who focused on their supply chain had some form of environmental policy in place. Of these, about one third had a policy linked with determining carbon emissions, including the adoption of guidelines related to CO_2, greenhouse gas protocols or more comprehensive policies that were targeted towards conformity with the CDP. Despite the relatively high number of MNEs that were concerned about the broader social and environmental practices of their supply chain, fewer (about 16 per cent) had a comprehensive sustainability policy in place for their value chain.

Of particular interest here was the growing trend identified by parent companies to focus on the sustainable development issues of their value chain, including upstream suppliers and downstream distributors. These value chains can extend across international borders and can involve numerous individual actors from smallholder farmers and growers, buyers and traders, and processors, through to exporters, distributors and further production organizations in foreign markets. A growing literature base demonstrates the benefits of organizations engaging with sustainable development issues that generate positive impacts in their supply chain, society and the environment. This is often shown to occur through changes in the conventional culture of practice (for instance, through education on better management processes and more productive techniques) and through access to advances in technologies.

4. Conclusion

The 2030 Agenda for Sustainable Development is “a plan for people, planet and prosperity” (UN, 2015, p.1). Achieving sustainable development across the integrated and indivisible economic, social and environmental dimensions requires the efforts of all – it is a global issue that concerns developing and developed nations (UN, 2015). The global nature of this issue affects the international community and although it is firmly on the agenda of governments, non-governmental organizations and the private sector, there is no doubt that the role of MNEs is critical for moving the transformational vision of the United Nations forward.

How do MNEs contribute to achieving the SDGs? With the 2030 Agenda for Sustainable Development just having come into effect at the beginning of 2016, it is too early to demonstrate; however, our research on 112 MNEs investing in the ASEAN region shows a discerning effort to achieve sustainability through corporate sustainability practices. From our research, the parent company experience and commitments of MNEs had a key influence on local sustainability practices. MNEs were engaging with international sustainability objectives, standards and guidelines, and although it was not possible to see the engagement of MNEs with SDGs because of the latter's recent introduction, we expect to see the SDGs slowly permeating through the broader sustainability objectives of MNEs and funnelling into their global operations through affiliate operations. This will be particularly the case where global sustainability platforms regularly utilized by the private sector, including MNEs, see further integration of the SDGs within their broader frameworks.

While some of the MNEs (at both the parent and affiliate levels) we investigated in our research were displaying best practices in relation to sustainable development, the SDGs will not only provide breadth of focus but also a clearer pathway for sustainable development. With the review process of goals and targets likely to draw on consultation with multiple stakeholders – from indigenous people, civil society, government and others – it will be clearer to MNEs what critical sustainability issues exist at the local level and how they might address them through their affiliates. The true value of corporate sustainability assessment as a measure of sustainable development is its common adoption on a voluntary basis. Here, we see the private sector increasingly making a decision to conduct an open, participatory approach in which multiple stakeholder groups are engaged to help set sustainability goals and outcomes for a project from the multiple perspectives of its stakeholders.

Our research shows that international standards and guidelines are frequently used to help inform the sustainability goals of the project. What is refreshing to see from our research on these MNEs is that the good ones are taking it one step further and extending the assessment practice to their value chains. There is a clear role for MNEs to move forward with the transformational vision of the United Nations and to achieve sustainable development on a global scale. Evidence shows that at the parent-company level MNEs are passing on their sustainable business practices to affiliate companies in developing countries. This is a pivotal practice to bridge the divide between the developed and developing countries and provide a pathway for more sustainable practices.

Although this research is only exploratory, it opens up a key avenue for further research. Specifically, future research would be well served in exploring how the SDGs are considered in the context of global sustainability platforms or international standards being utilized by MNEs. This suggests a focus not necessarily targeted at further exploration of MNE practices, but more so at the key influencing bodies that produce the instruments for which MNEs are increasingly reporting on and managing their operations. These platforms, such as the GRI standards, are being widely accepted and utilized by MNEs, and have become a key instrument for effecting change in their operations.

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