Social Responsibility of Multinational Firms: Between Global Efficiency and Local Adaptation

Rabia Naguib*

Using the results of a study conducted in Malaysia, this article aims to draw conclusions about the behaviour of multinational firms in terms of social responsibility and local adaptation. It proposes a typology of four categories of firms.

Field of research: International Business and Corporate Social Responsibility

Introduction

The study of the relationship between an organization and its environment lies at the heart of the concerns not only of researchers but also of practitioners in the field of strategic management. Accordingly, several schools of thought (planning, positioning, population ecology, resource dependence, contingency, design, collective learning,) have emerged (Mintzberg, 1994). Each of these schools possesses a partial or contingent descriptive or explanatory capacity (Martinet, 1997). When 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 the group of actors needed to realize the organization's main task (Thompson, 1967). The social and the general environment, perceived as neutral, received little consideration. 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.

---

* Department of Management, Marketing and Public Administration, College of Business Administration, University of Sharjah, PO Box 27272, Sharjah, UAE
Email: rnaguib@sharjah.ac.ae

In the process of internationalizing, multinational firms (MNFs) are 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) including 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, can take 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 these influence a multinational firm's 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 these varying contexts? How should management be organized within this framework? And how can it reconcile the various pressures and respond to the varying demands?

These are the sorts of questions that present themselves to researchers as well as practitioners. Trying to answer them is a challenge in itself, since we must adopt a holistic vision and deal with complexity at many levels. Using empirical research conducted in the context of Malaysia, this article aims to present the results related to the behaviour of multinational firms in terms of social responsibility and local adaptation. After a brief review of the literature enabling us to identify a framework for analysis, followed by a description of the Malaysian context, we propose a typology and four company profiles, based on the case studies that came out of our research.

Literature Review and Framework For Analysis

Several researchers (Ghoshal & Bartlett 1990; Bartlett & Ghoshal, 2002; Prahalad & Doz, 1999; Gupta & Westney, 2003) have studied the behaviour of multinational firms, pointing out the need for MNFs to be both global and local. In their studies, these researchers look mainly at economic, technological and political imperatives. They are interested in the organizational capacities of these companies in terms of resources devoted to creating sustainable competitive advantages that allow them to produce added value and increase profitability. In our study, which focuses in addition on socio-cultural imperatives, we are interested in MNF behaviours in terms of their capacity for local adaptation and participation in sustainable development that involves adding value to host countries and contributing to their growth while still ensuring profitability and legitimacy. Further, beyond the firm’s need for profitability, unified corporate strategy, and the “fit” or alignment between their organizational characteristics and those of the task environment, we highlight the need for the notion of balance or equilibrium if organizations are to survive. MNFs are forced to maintain a constant balance between myriad pressures coming from different directions. This points to the complexity of managing MNFs and the challenges their managers and directors face.

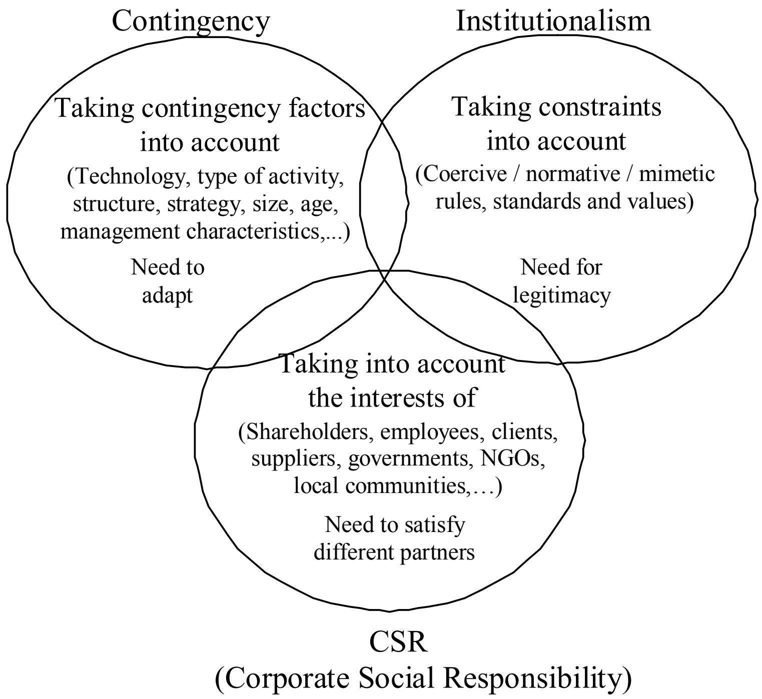
A review of the literature on this topic reveals a lack of studies that consider different levels of analysis concurrently or the specific context of developing countries. Farashahi (2003) notes that of a sample of 85 studies published in academic journals between 1983 and 2003, only 9 (11%) looked at two levels at the same time (international/national), and only 10 considered the context of developing countries (75% focused on the U.S.). Whence the need to study and understand the behaviour of organizations in their interactions with their environment in contexts other than those of developed countries. This is the aim of the present study.

Using a holistic perspective to attempt to lay out an analytical framework for the study of MNF behaviour that takes varying dimensions into account, we drew on both contingency theory and institutional theory, as well as on coprporate social responsibility (Naguib, 2004). The first, while emphasizing task environment, does consider the organization's need to adapt to its context, adopting various configurations (Miller, 1986; Mintzberg, 1990). Institutional theory places greater emphasis on the social and cultural aspects of the overall environment. Those aspects constitute institutional pressures that push organizations to adopt isomorphic or similar behaviours (Di Maggio & Powell, 1983; Meyer & Scott, 1992). Current thinking on corporate social responsibility (CSR) takes us to the heart of the relationship between the corporation and society (Caroll, 1999; Freeman, 1984). The issue of what role companies should play within a society is reviewed, leading to a discussion of the responsibilities companies should assume and for which it should be hold accountable.

Friedman (1962) held that "There is only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, engages in open and free competition, without deception and fraud." Other economists (institutionalists), however, sociologists and philosophers in particular, see corporate responsibility as going beyond the basic function of conducting commercial activities. Since society provides tangible and intangible resources which benefit the company, the latter – through its managers and directors – has, therefore, a moral and ethical obligation to take responsibility for the various actors that allow it to exist, maintain its operations, and make profit (Bird, 2001). For-profit enterprises create wealth by exploiting the resources of the social body in which they operate (OECD, 2001). Therefore, they have to distribute that wealth equally among the participants and stakeholders in their activities. That legitimizes the introduction of the principles of distributive justice, fair trade, corporate ethics, citizenship, and sustainable development into the study of organizations.

In summary, by combining the three respective theories, we can make an effective contribution to a better apprehension and understanding of the phenomenon we try to study. These theories are complementing each other and are taking into consideration different factors necessary to understand the behaviour of Multinational companies, as we see in Figure 1.

Figure 1: Combination of theories reviewed in the literature



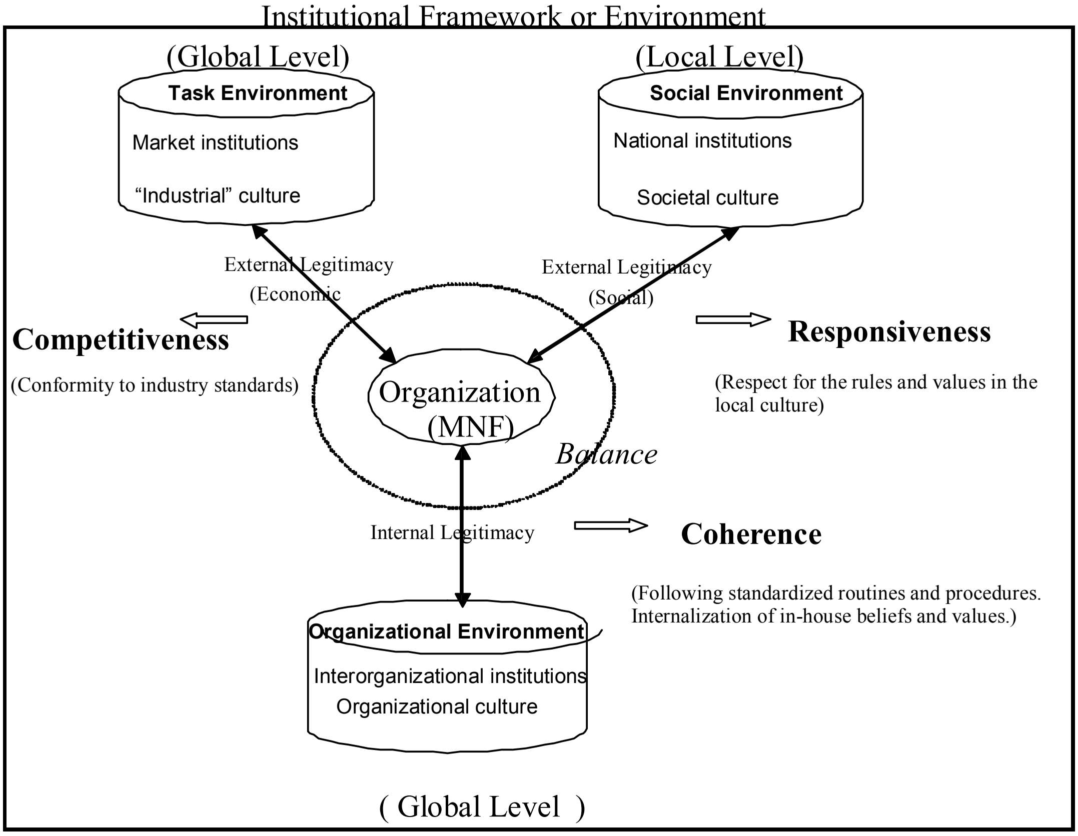
In studying the behaviour of MNFs, it is important then to consider contingency factors as well as institutional limitations and the interests of various stakeholders. Nearer to our concerns is the work of Davis & al. (2000) and Kostova & Roth (2002) who explore the relationship between multinationals' strategies and practices, and the institutional pressures operating at different levels. According to Kostova & Roth (2002), applying institutional theory in the case of multinational firms reveals the vast institutional complexity that these organizations face in having to manage a multitude of sometimes conflicting pressures. Pressure is exerted on these firms to adopt local practices and in so doing, to become isomorphic within the institutional context of the host country. At the same time, in order to retain their competitive advantages, they are forced to adopt the same organizational practices as all the other subsidiaries around the world. The resulting tension, between the need for an internal-global integration and an external-local adaptation, characterizes the behaviour of such firms.

In fact, 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". 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 as 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 contest 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.

So it appears that the subsidiaries of multinational firms 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 its legitimacy. MNF 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. With that as our starting point, we propose an analytic 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 2.

Figure 2: Framework for analyzing the behaviour of MNF subsidiaries



This framework allows us to advance the idea 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 and among which it has to maintain a constant balance. This framework turns out to be a valuable heuristic tool for a concrete analysis of the behaviour of several of the firms we studied within an exploratory inductive study conducted in the context of Malaysia.

Methodological Framework

Given the nature of our topic, dealing with the behaviour of multinational firms in terms of local adaptation and social responsibility in the context of developing countries, we opted to do a qualitative exploratory study (Langley, 1999). It is undeniable that multinational firms are significant economic players on the international chessboard. They control two-thirds of world trade. These firms are based mainly in industrialized countries with market economies. Powerful, vertically integrated, they are able to thwart the actions of host countries, all the more so if those countries are poor and trying to emerge from their underdeveloped status (Bennani, 1991). Countries *looking* for development find themselves subject to strong pressures, both internally and externally. Caught between the anvil and the hammer, they must either let themselves be dictated to on development, adopting policies set by international institutions at the risk of altering or destroying their traditional institutional frameworks with a resultant loss in stability and direction; or else draw on their national culture and their own system of norms and values to tease out a suitable development model (Voir Cheng & al., 1998, *Institutions and Growth in Korea and Taiwan: The bureaucracy*; Coates, 1987, *The Confucian Ethic and the Spirit of Japanese Capitalism*). In this optic, Stiglitz[1] (2002) notes that countries that have managed globalization in their own way – like those in Southeast Asia, have been in a better position overall to benefit, and to share out the benefits equally. They have been able to control the terms of engagement with the global marketplace. In contrast, countries where globalization was managed for them by the International Monetary Fund and other international financial institutions have done less well. He concludes that the problem is not therefore globalization itself, but the way in which it is managed.

The case of Malaysia is instructive in this regard. In 1997, then Prime Minister Dr. Mahathir declared[2] that he and his colleagues knew how to develop their countries, and that Malaysia had not become an Asian tiger by listening to the media or financial experts. In addition to being a "success story", in terms of economic development, Malaysia displays the features of an institutional context in which companies are expected to consider the country's norms, values, cultural and social traditions, and religious beliefs. That explains the choice of this country for our field study. We spent four months there to familiarize ourselves with this context and collect data. We studied six subsidiaries of multinational companies, using semi-structured interviews with various executives. We interviewed 45 managers, mainly expatriates. The information gathered, complemented with secondary data, allowed us to write cases about the subsidiaries of the following companies: Nestlé, Unilever, Alcom, SNC-Lavalin, Dragages, and Le Régent. We proceeded then to a systematic "within-case" analysis, followed by a "cross-case" analysis (Eisenhardt, 1989; Langley, 1999). We then identified the main organizational, industrial and social factors influencing the behaviour of the subsidiaries of the MNFs. In this article, we look at only some of those results, using four configurations. But before, we need to explore the contextual context of Malaysia.

Importance of The Context: Economic And Socio-Cultural Characteristics Of Malaysia

Malaysia is situated in the heart of Southeast Asia. It counts among the emerging economies with middle revenues. It is a federal and a constitutional monarchy made of thirteen states. Malaysia is a mosaic with different races, languages and religions living together. Its total population is 24 million, 60% are Malays, around 30% Chinese and some 10% Indians. The official language is Bahasa Malaysia (Malay), although English is used in the legal system. Chinese (largely Mandarin), Tamil, and regional ethnic languages and dialects are also widely spoken. Islam is the national religion of the country and nearly all of the Malays are Muslims, while the majority of Chinese are Buddhists, and the majority of Indians are Hindu. Malaysia is rich in natural resources. It has a diversified industrial basis, a favorable climate for investment and a modern and effective infrastructure which allow the country to become an attractive market.

Malaysia passed through the successive domination of three European colonists. First the Portuguese (1511-1641), followed by the Dutch (1641-1795) and the British (1795-1957). The British put in place a judicial and administrative colonial system triggering the economic development, but encouraging in the meanwhile an ethnic division of work. In the early years of independence, after 1957, the Malays through their plurality in elections, took control of the political sphere. The Chinese, the majority of whom were living in urban areas, controlled much of the nation’s economy. This ethnic split between political power and economic predominance created a precarious balance between the public and private sectors. This ethnic division culminated in a racial riot in 1969. At that time, 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 and 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 whom lived in rural poverty, to gain an increased share of a growing economy targeting 30% asset ownership for 1990. In 1995, the Bumiputras owned 23% of corporate shares compared with only 1.9% in 1970. Twenty-seven percent of corporate ownership was held by Chinese 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.

The achievements of Malaysia are definitely noteworthy given a history of colonialism followed by racial and ethnic tensions leading to open conflicts. Strong government leaders, committed to clearly articulated strategies for economic and social development has been a major factor in Malaysia’s progress. These 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 economic development (Norhashim and Kamarulzaman, 2005). In this context, economic growth was obviously used as an instrument to restore equality and to maintain a social stability in a multiethnic society.

The successive Malaysian governments sought to guide the course of economic development while ensuring a more equitable distribution of costs, opportunities and rewards among diverse ethnic and racial factions in its population. One way of doing it, was through a “smart partnership” between the public and the private sectors. Also, the context of Malaysia requires from its government to formulate its core development philosophy and strategy according to its particular circumstances, culture and history. 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. 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 these companies manage the different pressures and logics they are subjected to? How they reconcile the global efficiency requirements with the local needs? Through the cases studied in this research, we will try to answer these questions.

Behaviours of Multinational Firms Operating In Malaysia: Between Global And Local

Multinational firms, or more precisely their subsidiaries, with significant operations in Malaysia, are subject to control by multiple factors, both 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 that internationalize 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.

The Influence of The Activity Sector

Whether firms that internationalize conform to uniform standards or adapt to local specifics depends on the nature of their activities, i.e., on whether they offer consumer products or capital goods. Companies operating in the food and consumer products sector are forced, by the type of business they are in, to adapt their products to the tastes and demands of local consumers. Their legitimacy and profitability depend on it. In Malaysia, a predominantly Muslim country, the availability of halal food products is extremely important, to its national government as well as its citizens. That means that all beef and poultry products must be certified "halal" (as defined in the Muslim faith), gelatin products may not contain pork by-products, and there can be absolutely no alcohol in any product[3]. Companies like MacDonald's and Burger King, or Nestlé and Unilever, are held to this local requirement to supply halal products. They have to go through an accreditation process. 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.

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. That is, therefore, one less pressure they have to deal with. Their operating constraints come more from the competition, and from the international standards prevailing in their activity sectors. 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. Good relations with the authorities in the host country, along with local employee and customer satisfaction, turn out, therefore, to be important. 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. Alcan grasped this fact, to the extent of trying to operationalize it across its current practices. Thus, even when these companies have no direct contact with consumers, because of the nature of their business, they still have local shareholders, employees and clients to be satisfied. This means they too are subject to pressure from local partners, all the more so when the latter are supported by the authorities that write and administer local bylaws, regulations and contracts.

The Influence of Organizational Factors

Organizational factors, deriving from the characteristics of the internationalizing firms themselves, are multiple (investment plan, size, age, corporate strategy, nationality, organizational culture, etc.). Each of these factors drives the firm to adopt behaviours that move the operation towards either the global, through standardization, or the local, through adaptation to specific contexts. In our sample, factors such as age and size are clear predictors of this split. Thus, the older a company is, the stronger its organizational culture and the more it tends to institutionalize, 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. 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

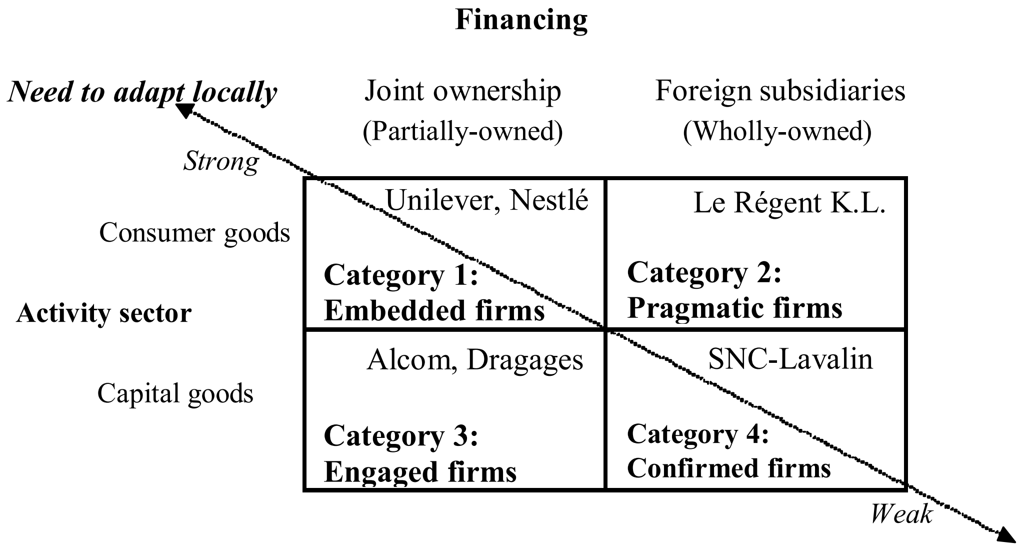
Nestlé group was trying to standardize all its procedures, in all areas, as well as its infrastructure and IT. The goal, according to its executives, was to harmonize internal procedures in order to use the group's size for competitive leverage, greatly reducing costs and getting closer to consumers[4]. In short, GLOBE's objective was to improve performance and efficiencies in Nestlé's operations around the world. Nestlé Malaysia was the first to implement the project[5].

Meanwhile, Nestlé Malaysia is in direct contact with consumers, and has thousands of local employees and local shareholders who hold more than 30% of its capital. Nestlé executives, given this reality, had to adopt an overall policy taking 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 management expresses the dilemma that many companies face when they internationalize, which is: How do we reconcile *coherence* (of principles, rules of behaviour, and strategy) with *diversity* (of countries, social categories, geographic regions, activity sectors, and product ranges)?[6]

It turns out that, while some aspects and processes lend themselves concretely and potentially 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, on the other hand, involve the management of human capital and relations with local partners, requiring greater adaptation to the local context, and a consideration of social factors, not simply economic ones.

Behaviours of Multinational Firms: Patterns

Based on a sample of multinational firms studied in the context of Malaysia, and using the nature of their activity sectors as well as their financial structures as factors influencing their behaviours in terms of local adaptation, we propose the following categories:



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. We attach profiles to these categories as a way of putting a face on them and distinguishing them from each other. We have added a diagonal axis to situate 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 Alcom, ahead of Dragages, with SNC-Lavalin showing the least pressure to adapt. This classification can be understood as follows:

- **Category 1: Embedded Firms**

This category covers companies or subsidiaries offering consumer products, partially owned by the parent company. In this category, we find 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 part of their capital is held by local shareholders, they find themselves in the position of “citizens” having to consider all their partners, at the national as well as international level. Further, 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: they have “dug in”. 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 the fact it has hired more local directors and managers than Nestlé, which has many more expatriates on its management team.

• 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 here 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 are 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 skill. This MNF 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 (mainly men). 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 MNF, which takes the specific social context into account and adapts its management plan accordingly.

• Category 3: Engaged Firms

Engaged firms are subsidiaries supplying capital goods, 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 turns out to be necessary. Their operations also 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 aluminum 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 the early grades, focusing on making them aware of the benefits of recycling. Whence the "engaged" profile we have assigned to this category.

• 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. These firms believe they do their share for society through the fact of operating there, which contributes to national development and citizen welfare. They point 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” companies fits those that enjoy a strong image and a good reputation.

Conclusion

> “Water shapes its course according to the nature of the ground over which it flows. (…) Therefore, just as water retains no constant shape, so in warfare there are no constant conditions. He who can modify his tactics in relation to his opponent and thereby succeed in winning, may be called a heaven-born captain.” Sun Tzu[7]

The corporate environment is definitely in constant flux. The pace of change is increasing. Globalization has become an ineluctable fact. Nevertheless, some facts remain unavoidable. Some 260 years ago, Montesquieu (1748) wrote about the wide diversity of laws and customs in his own day. Amid that diversity, he identified commonalities that constitute “the spirit of laws”, corresponding to the “various relations which the laws may bear to different objects”. This “spirit” translates the principles, motives, impulses and inclinations that rule our acts. At its origin are physical causes, such as climate, as well as moral causes (religion, traditions, customs and manners), which differ for each country. In fact, there are varying relations between things and different logics underlying those. Which leads us to the notion of cultural relativity and the importance of taking it into account, in particular within our framework of corporate management and internationalization. That approach takes us to the heart of the tension between global and local, or, expressed in another way, between the MNF’s need for a uniform, corporate standard driven by economic reasoning, and the need of local governments and communities to protect their culture and distinct identity in keeping with social reasoning. How are managers to cope within this framework?

Sun Tzu, the ancient Chinese author of *The Art of War* and a point of reference in the field of strategy, used metaphor to talk about the conditions required for survival and success in situations like those experienced by our companies. He wrote about water, in itself a source of life and symbol of endurance. Water's fluidity, its ability to adapt and flow, are the same characteristics firms need to ensure smooth management and success, none more so than firms setting up operations in a new environment. Extending Sun Tzu's metaphor, we note that water is considered a soft element, but one with immense power (as we saw with tsunamis). The lesson to be drawn here is that companies would do well to consider the "soft" components (human resources, values, reputation, legitimacy) that play a critical role in their survival and affect their performance. It is precisely these components that are hard to standardize, requiring companies to come up with adaptations appropriate to each context. A firm's performance then, cannot be measured solely in financial terms. Social and environmental factors must also be taken into account in any management framework in which the global and the local have to be reconciled. There is a difference in the optics of the global and the local in terms of their relations to things and the reasoning behind the relationship. In other words, between the multinational's need for standardization or "corporate coherence" in processes and behaviour, and the need on the part of local authorities and communities to preserve specific local culture. Managers of companies that are internationalizing must *de facto* confront a wide range of challenges, and those challenges will vary depending on the nature and characteristics of the local context, the activity sector, and their own organization.

This study aims at highlighting the importance of the socio-cultural environment, often blurred in the literature on strategic management by an emphasis on the task environment. It tries to make managers more aware of the fact that taking a reading of local realities and cultural specifics as part of their management processes is likely to be useful. To assist them in doing that, we offer a heuristic tool for the analysis and understanding of how multinational firms behave, designed to shed light on and identify the respective limitations of three kinds of environments they might simultaneously consider: the organizational, the sectoral, and the social. In doing so, they will be better equipped to make enlightened decisions, developing strategies that respect local realities as well as global pressures, and maintaining a balance between the economic and the social. Using examples of companies operating in the context of Malaysia, we provide a typology of the behaviours of international firms having to reconcile the global and the local. Finally, we advance the position, based on opinions expressed by executives in the companies we studied, that management is still a matter of "good sense". We might add here that management is also a matter of having a "sense of the good", so that in addition to "doing things well", they will be in a position to "do the right thing".

References

- Ansoff, H.I. 1965. *Corporate Strategy*, McGraw Hill, New York.
- Bartlett, C. A. & Ghoshal, S. 1986. „Tap your Subsidiaries for Global Reach". *Harvard Business Review,* 64 (4): 87-94.
- Bartlett, C. A. & Ghoshal, S. 2002. Managing across Borders: the multinational solution, *Harvard Business School Press*, 416p.
- Bennani, M. 1991. *Le code des conduites des multinationales, In Éthique et Entreprise : perspectives maghrébines*, Casablanca, Éditions Wallada, p: 209-240.
- Bourgeois, L. J. 1980. Strategy and Environment: A conceptual Integration, *Academy of Management Review*, 9 (4): 24-39.
- Bird, F. 2001. "Good Governance: A philosophical discussion of the responsibilities and practices of organizational governors", *Canadian Journal of Administrative Sciences*, 18(4): 298-312.
- Carroll, A. B. 1999, "Corporate Social Responsibility, evolution of a definitional construct", *Business and Society,* 38 (3): 268-295.
- Colin, J-P. 1990. Regard sur l'institutionnalisme américain, *Cahiers Sciences Humaines*, 26(3): 365-377.
- Davis, P.S., Desai, A. B., & Francis, J. D. 2000. "Mode of international entry: An isomorphism perspective", *Journal of International Business Studies*, 31 (2): 239-258.
- Di Maggio, P.J. & Powell, W. 1983. "The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organizational Fields", *American Sociological Review*, 48: 147-160.
- Eisenhardt, K. 1989. "Building Theories from Case Study Research", *Academy of Management Review,* 14(4): 532-550.
- Farashahi, M. 2003. Institutionalization process within organizations: A multilevel analysis of two functional activities of airlines in a developing country, PhD theses, Concordia University, Montreal.
- Freeman, E. R. 1984. *Strategic Management: A Stakeholder Approach*, Pitman, Boston.
- Friedman, M. 1970. "The social responsibility of business is to increase its profits", *New York Times Magazine*, September 13: 32-33, 122-126.
- Friedman, M. 1962. *Capitalism and Freedom*, University of Chicago Press.
- Gupta, A.K. & Westney. D.E. 2003. *Smart Globalization: Designing Global Strategies, creating Global Networks,* Jossey-Bass, 384p.

- Hafsi, T. 2002. Les pays en développement et les organisations: vers une institutionnalisation de l'ignorance 2, Contribution au Mélange réalisé en hommage à Jean-Claude Tarondeau, HEC Montréal.
- Jesudason, J.V. 1989, Ethnicity and the Economy, Oxford University Press, N.Y.
- Kostova, T. & Roth, K. 2002. "Adoption of an organizational practice by subsidiaries of multinational corporations: Institutional and relational effects", *Academy of Management Review*, 45(1): 215-233.
- Langley, A. 1999. "Strategies for theorizing from process data", *Academy of Management Review*, 24(4): 691-710.
- Mahathir, M. 2000. *Managing the Malaysian Economy,* Selected Speeches, Volume 2, Pelanduk publications.
- Martinet, A. C. 1997. Pensée stratégique et rationalités: un examen épistémologique, *Management International*, 2 (1): 67-75.
- Meyer, J. W. & Scott, W.R 1992. *Organizational Environments: Ritual and Rationality,* Updated Edition, Sage Publications.
- Maucher, H. 1995. *La stratégie Nestlé : principes simples pour diriger un monde complexe,* Maxima, Paris.
- Miller, D. 1986. Configurations of Strategy and Structure: Towards a synthesis, *Strategic Management Journal*, 7: 233-249.
- Mintzberg, H. 1990. Les configurations dérivées, In *Le management: voyage au centre des organisations*, Paris, Éditions d'Organisation, Chap6, pp: 149-175.
- Montesquieu 1748. *De l'esprit des lois*, document produit en version numérique par Jean-Marie Tremblay, collection: "Les classiques des sciences sociales".
- Morin. E. 1986. *La méthode III : la connaissance de la connaissance*, éditions le Seuil.
- Naguib, R. 2004. *Interface Organisation-environnement, cas des entreprises multinationales opérant dans un pays en développement : contexte de la Malaisie*, thèse de doctorat, HEC Montréal.
- Netto, A. 2003, Mahathir's Legacy: Horizontal Equality & Suppressed Debate? http://www.panos.org.uk/newsfeatures/featuremonths.asp?m=6&y=2003 [10 September 2006].
- Norhashim, M., & Kamarulzaman, A. 2005. Smart Parnership or Cronyism : A Malaysian Perspective, *International Journal of Sociology and Social Policy*, 25(8):31-48.
- OCDE 2001. *Responsabilité des entreprises: Initiatives privées et objectifs publics,* Organisation de Coopération et de Développement Économique.

- Prahalad, C. K. & Hamel, G. 1990. The core competence of the corporation, *Harvard Business review.*
- Prahalad, C. K. & Doz, Y.L. 1999. *The multinational mission: Balancing Local demands and Global vision,* Free Press, 304p.
- Rudner, M. 1994. Malaysian Development in Retrospect and Prospect. In Martin Rudner (ed.), *Malaysian Development: a Retrospective*, (pp.390-400). Ottawa: Carleton University Press.
- Siagh, L. 2001. *Le fonctionnement des organisations dans les milieux de culture intense: le cas des banques islamiques*, thèse de doctorat, HEC Montréal
- Stiglitz, J. E. 2002. Globalism's Discontents, *The American Prospect Globalism and Poverty,* Winter: A16-A22.
- Sun Tzu, *L'art de la guerre*, www.bookenstock.com.
- Thompson, J. D. 1967, *Organizations in Action*, McGraw-Hill, New York.
- United Nations 2006. *Malaysia: International Trade, Growth, Poverty Reduction and Human Development*, Kuala Lumpur: United Nations Development Programme, June.
- Zucker, L.G. 1977, The role of institutionalization in cultural persistence, *American Sociological Review*, 42: 726-743.

---

[1] Former Chief Economist at the World Bank, winner of the Nobel Prize in Economics and professor of economics at Columbia University.

[2] Paper delivered in Hong Kong at the annual meeting of the World Bank-WMF on the topic of *Asian Economies: Challenges and Opportunities*.

[3] « Malaisie : rapport d'évaluation du marché d'exportation des produits agroalimentaires », Agriculture & agroalimentaire Canada, Août 1997, atn-riae.ca/info/asia/asean.

[4] GLOBE was projected to save Nestlé 3 billion Swiss francs from 2000 to 2006.

[5] The GLOBE project was launched in three pilot markets: Malaysia, Singapore and Switzerland.

[6] Maucher (1995), p.129.

[7] Sun Tzu, The Art of War, Accessed January 26, 2008: http://www.identitytheory.com/etexts/artofwar6.html.