CHAPTER 1

CREATING A SUSTAINABLE COMPETITIVE POSITION THROUGH ETHICAL BEHAVIOUR

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ABSTRACT

In this chapter, we discuss the main themes of the book and give examples of how the rest of the chapters are related to these themes. We have identified two main aspects that are partly overlapping and are equally relevant for international firms' work with ethical questions related to their business. One concerns how ethical behaviour related to sustainability can be applied as a main part of firms' corporate strategy and how this may strengthen the international competitive position. This is particularly relevant when considering that it cannot be taken for granted that there is always a positive relationship and that actors may sometimes question an emphasis on ethical behaviour that goes beyond the accepted norms and regulations. The other main theme is related to international firms' crucial role in supporting sustainability on an international level and contributing towards achieving sustainable development goals (SDGs). Solving many of the challenges related to climate change, migration, poverty and inequality is likely to require the involvement of international firms. The book identifies several routes forward to achieve this.

Keywords: Sustainability; ethical behaviour; competitive position; sustainable development goals; corporate strategy; responsible business

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This book will investigate the relationship between competitive positioning of international firms, on the one hand, and sustainability and ethical behaviour, on the other hand. It will do so from two different but overlapping perspectives. One concerns how sustainability can be applied as a main part of firms' corporate strategy and how this may strengthen the international competitive position. The other concerns how international firms can support sustainability on an international level and contribute towards achieving SDGs. Both these perspectives will draw upon the corporate sustainability construct, viewing it as consisting of an environmental, social and economic dimension (Hahn et al., 2015).

SUSTAINABILITY AND A COMPETITIVE POSITION

International business (IB) research has established the idea that firms create a competitive advantage by using their resources and capabilities in the most efficient way, thereby creating a long-term sustainable advantage (Buckley & Ghauri, 2004; Teece, 2014). More recently, it has been proposed that international firms need to put more effort into creating positive externalities and minimizing negative externalities if they want to be competitive on a global market (Ghauri & Cooke, 2022; Montiel et al., 2021). This suggests that international firms' ethical behaviour and sustainability considerations become crucial in achieving competitive advantage. At the same time, the link to competitive advantage cannot be taken for granted and requires further research from IB scholars as discussed by Tarnovskaya in Chapter 5. This book investigates, from different perspectives, whether and how international firms may benefit from good transparent ethical behaviour and how competencies in managing sustainability may lead to a long-term competitive advantage.

International Firms Driving Sustainable and Ethical Business Practices

The importance of ethical aspects and a sustainable competitive position is being increasingly emphasized by all types of firms. At the same time, involvement of stakeholders such as governments, non-governmental organizations (NGOs), society in general, and the media becomes stronger (Hadjikhani et al., 2012). It has become critical for companies to understand and consider the externalities that company strategies create in society in general (Elg et al., 2017; Ghauri et al., 2021; Mellahi et al., 2015).

For international firms with operations in multiple markets across the world, it is recognized that cultural and contextual forces are major challenges influencing their work on ethics and sustainability (Bartlett & Ghoshal, 2000; Enderwick, 2018). Earlier studies have emphasized that what is considered to be an ethical and sustainable desired behaviour in one market may not correspond with values held by actors in another part of the world (Bondy et al., 2012; Elg et al., 2015). In a recent study on the global fashion company H&M and its work on implementing fair wages in their supply chain, it was shown how the managers initially experienced major resistance from local suppliers and local factories in Bangladesh (Tarnovskaya et al., 2022). The local actors were hesitant to engage in a dialogue about wages with a buyer such as H&M. At the time when H&M started to implement their work on fair wages in Bangladesh, fair wages were not clearly identified as an ethically desired behaviour. In Chapters 6 and 7 Melén Hånell, Tolstoy and Tarnovskaya and Tolstoy, Melén Hånell and Tarnovskaya illustrate and discuss how a multinational enterprise (MNE) such as H&M can drive sustainable and ethical business practices around the world and particularly in an emerging market context.

Structural and Cultural Variations Between Markets

Cultural and contextual factors regarding what is considered ethical may vary across the world (Arregle et al., 2016; Strauss et al., 2017). Stakeholders – such as customers, suppliers, business partners, host communities, the media and governments – can have different perceptions and make different interpretations of what is relevant and doable (Crilly et al., 2016). Cerne and Elg (Chapter 9) further discuss these challenges and argue that there are discrepancies between the institutional logic applied by western suppliers and the logics prevailing in an emerging market. This may, in turn, lead to frictions that must be managed.

Despite the challenges posed by cultural and contextual forces, more and more IB scholars emphasize the key role that international firms have in driving and implementing sustainable and ethical business practices around the world (Van Tulder et al., 2021; Wettstein et al., 2019). Some argue that international firms have the managerial capacity and global outreach which make them particularly suitable for taking on a strong leadership role (Van Tulder et al., 2021). Still, as discussed by Ghauri (Chapter 8), it may require organizational innovation and the redesign of core business pillars to transform the strategies and operations of the MNE.

THE IMPORTANCE OF INTERNATIONAL FIRMS FOR ACHIEVING SUSTAINABILITY GOALS

Challenges related to climate change, migration, poverty and inequality are transnational. Solving many of the global challenges related to these four threats requires the involvement of international firms (Wettstein et al., 2019). For example, Sönnichsen (Chapter 3) describes how international firms can develop the CE construct in a way that can contribute to sustainability in a very substantial way. It can be argued that firms operating internationally have a crucial role in contributing to a more sustainable world. One recent study, for example, found that 71% of global emissions came from 100 companies (Griffin, 2017). This supports the view that it will be very difficult to achieve global sustainability goals without the active support from international firms and that this will also require active collaborations with social and political actors (Hadjikhani et al., 2012).

Contributions to Global Sustainability Goals

United Nations' SDGs introduced in 2015 which are to be achieved by 2030 (Agenda 2030) have spelled out 17 areas where organizations are expected to contribute (UnitedNations, 2015). However, ESG (environmental, social and governance) was coined even earlier in 2005. That initiative went beyond CSR (corporate social responsibility) which had become quite prevalent by that time (Perez et al., 2022). Table 1 illustrates the issues dealt with in the ESG scheme. Companies that follow this model are given a 'social license', whereby most stakeholders believe that such a company is operating in a fair and appropriate way and deserves their trust. This is consistent with our belief that firms that behave ethically can obtain the 'social license' and gain trust from all stakeholders and, thus, become more competitive.

Since the introduction of ESGs, companies and organizations have allocated more and more resources towards improving ESGs and now more than 90% of S&P 500 companies publish ESG reports (Perez et al., 2022). Although a major part of ESG investments and responses is limited to climate change, lately, the importance and focus on the social dimension including ethical behaviour have been increasing (Vanderford, 2022).

At the same time, it has been put forward that ESG is good for the brand but not for the performance of the company, while others have characterized ESG reports as greenwashing and claim that most companies will not be able to achieve their SDGs as stipulated in their ESG reports. One reason given for this scepticism is that it is difficult to find a correlation between ESG and financial performance (Artz et al., 2021; Dorfleitner & Halbritter, 2015). Andersson and Arvidsson (Chapter 13) specifically discuss the EU's sustainable finance platform that envisions investors as key drivers of firms' sustainability transformation. Their study suggests that even though investors play an important role here, it does not necessarily achieve the ambitions of the policymakers. This might lead to the platform's failure or new changes in the game plan.

As illustrated by Fig. 1, the United Nations' SDGs are quite complementary to ESG and, in fact, all 17 SDGs can be grouped under one or other ESG schemes. While all firms cannot contribute towards all 17 goals, most international firms can contribute to some of them. Table 2 illustrates how international firms may contribute to some of these goals in a direct way or through collaborations with different stakeholders. Many goals are related to value-creating collaboration. Sacco and Magnani (Chapter 11) discuss how sustainability and resilience-building practices interact in global value chains (GVCs) and how this collaboration might support fulfilling the SDGs.

Table 1. The Mechanisms to Achieve ESG.

Environmental (E)	Social (S)	Governance (G)
• Waste and pollution	• Employee relations and diversity	• Tax strategy
• Resource depletion	• Working conditions	• Executive remuneration
• Greenhouse gas emission	• Local communities	• Donations and political lobbying
• Deforestation	• Health and safety	• Corruption and bribery
• Climate change	• Conflict	• Board diversity and structure

Source: Based on Perez et al. (2022).

Table 2. How International Firms Can Contribute to the SDGs.

SDGs	Implications for the Role of International Firms
Goal 1: No poverty – End poverty in all its forms everywhere	• How can international firms generate quality employment, equal opportunities and contribute to human capital to eradicate poverty?
Goal 7: Affordable and clean energy – Ensure access to affordable and clean energy	• What role can international firms play in this transition? What green technologies can be developed by MNEs to tackle pollution?
Goal 8: Decent work and economic growth – Promote inclusive economic growth and decent work for all	• What are the drivers for international firms to adopt inclusive business models? How can they include SMEs into their value chain? How can they contribute towards inclusive development?
Goal 9: Industry, innovation and infrastructure – Build resilient infrastructure and promote inclusive innovation	• How can international firms adapt their innovation and new product development strategies to be more inclusive and incorporate marginalized communities?
Goal 10: Reduce inequality – Reduce inequality within and between countries	• To what extent do international firms' policies reduce intra- regional inequality, as regards to wages, gender, health and safety and living standards?
Goal 12: Responsible consumption and production – Ensure sustainable consumption and production patterns	• How can international firms contribute to developing the CE through their R&D capability, restructuring of GVC and sustainable packaging?
Goal 13: Climate action—Take urgent action to combat climate change and its impacts	• To what extent international firms use same standards in developing countries as in their home markets? How can MNEs use green technologies in their respective industries?
Goal 17: Partnerships for these goals – Strengthen and revitalize the Global partnership for sustainable development	• How can international firms work with governments and social actors to reduce inequalities and achieve sustainable development in developing countries?

Source: Based upon the United Nations' SDGs (United Nations, 2015) and (Ghauri, 2022).

The SDGs have put things in context and are proposing that states, companies and other organizations should rethink their policies and strategies, while many IB researchers are still wondering whether it is the responsibility of companies to contribute towards the achievement of these goals (Ghauri, 2022). The main problem is, thus, to comprehend the externalities that firms are creating when seeking profit maximization around the globe. One way of addressing this question is to investigate through more research the different ways that firms are contributing or may contribute to the SDGs (Lashitew, 2021; Montiel et al., 2021). Overall, we argue that international firms must play a major role in achieving these goals. Put more explicitly, the possibility to achieve these goals will be seriously undermined without active participation from international firms. Furthermore, the achievement of different goals is interconnected and complementary. For example, the role of innovation (SDG Goal 9) can play an important part in addressing problems confronting the lives of those in poor communities by using limited resources, developing frugal innovations, making energy more affordable, supporting climate actions and developing the CE.

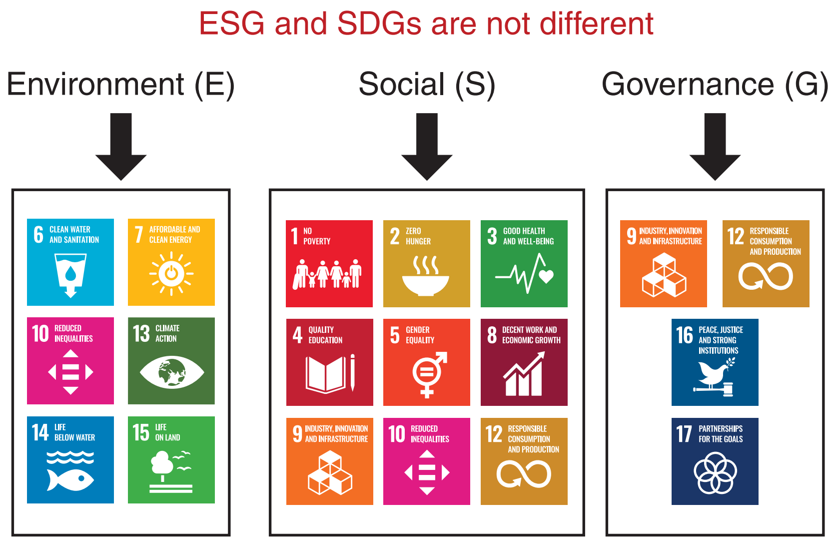

Fig. 1. The Link Between ESGs and SDGs.

Several chapters in this book discuss how firms are trying to contribute to the SDG goals and also identify challenges and barriers that they are facing. Elg and Ghauri (Chapter 2) show that there may be constraints due to a lack of willingness from local partners to make risky investments that may support working conditions or the environment if there are no obvious business gains. Here, resourceful multinationals can play a vital role in securing these investments. Zhao, Ku and Dilyard (Chapter 4) discuss how global corporations can innovate in order to reduce the global waste crisis while simultaneously strengthening their competitive positions, while Drennan, Rovira Nordman and Safari (Chapter 12) focus upon how firms' sustainable orientation may affect consumer behaviour.

The Importance of Small and Large International Firms

This book builds on the understanding that the SDGs present some common insights about what companies need to adhere to while undertaking IB (Van Zantan & Van Tulder, 2018). We believe that both small and large international firms can equally contribute towards SDGs. In this discussion, it is important not to forget about small international firms and their potential to become competitive while following SDG-based behaviour. Dominguez (Chapter 10) explains how small- and medium-sized enterprises (SMEs) integrate circular economy (CE) principles in their business models and how this contributes to meeting the SDGs. As discussed in the chapter, SMEs may find in CE a way to overcome their resource scarcity. A case study of a French start-up highlights the drivers, managerial practices and collaborations engaged by SMEs to generate economic and non-economic value.

While small firms, in comparison to large corporations, must struggle with scarce managerial and financial resources, smaller organizations also have certain advantages over large firms. Some of the inherent strengths of small international firms lie in their innovativeness, and their competitive advantage results from speed, responsiveness and closeness to customers (Hutchinson & Quinn, 2012). In a study by Melén Hånell et al. (2018), one small international firm operating within the Swedish life-science sector described its competitive situation by saying: 'They are giants which are 50–100 times larger than us, but we move faster than them. They are like elephants, and we are like mice'. The small life-science firm attributed its success on a global market to the firm's innovativeness and speed in making decisions.

In this book, we, thus, aim to understand how international firms, both small and large, deal with the opportunities as well as the challenges involved in staying competitive over a long period while following an ESG/SDG-based behaviour.

OUTLINE OF THE REST OF THE BOOK

Different chapters in the book present different types of studies, some are conceptual, some deal with Swedish firms and some deal with firms from other parts of the world. We, thus, believe that we provide state-of-the-art knowledge of this important topic and hopefully connect ESG, SDGs and sustainable competitive positioning, and demonstrate how these constructs are related to each other. Researchers who are involved or are interested in this type of research will find several valuable concepts and examples that can be useful for their own research. We have divided the book into three parts. Part one deals with the conceptual development of the themes that are dealt with in the book where different authors present their views. Part two predominantly deals with Swedish firms and how they are dealing with ethical and sustainability-related issues, while part three presents examples from firms from other parts of the world.

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