LUISS

Corso di laurea in Strategic Management

Cattedra International Business and Management

Internationalization and Corporate Sustainability: empirical evidence from ASEAN emerging market multinationals

Majocchi Antonio

RELATORE

Pongella Claudia

CORRELATORE

746961

CANDIDATO

Anno Accademico 2022/2023

Table of Contents

List of Figures

List of Tables

Chapter 1 – Introduction

The issue of climate change is one of the most important challenges facing the entire world.

In the past few days alone, an entire Italian region – Emilia Romagna – has been subject to extreme flooding events that have brought entire cities and neighboring municipalities to their knees. Record rainfall, overflowing streams and landslides have caused extensive damage to structures and even some fatalities.

Likewise, floods in Pakistan, hurricanes in central America, the drought wave that is affecting Europe, Brazil, China, and Africa, and cyclones in southeast Asia are just a few examples of the natural disasters that have recently struck across the globe. It is estimated that, in 2022 alone, catastrophic events caused thousands of casualties, 44 million people displaced, and more than $200 billion in property damage. This is nearly half of the total damage caused by extreme weather events in Europe over the past 40 years (Christian Aid 2022). But the most dramatic news is that these estimates are on the low side, both because not all countries keep track of human losses and displaced persons, and because economic estimates are based only on losses covered by insurance, so the true financial costs are certainly much more expensive.

Obviously, all these events have direct effects on countries and human activities. Given the severity of these repercussions, governments and institutional organizations have been trying for many years now to limit the human impact on the causes of these natural disasters by introducing regulations on environmental and social issues.

This is the reason why climate change issues are one of the main challenges facing internationalized firms. Firms internationalize to strengthen their position in the markets. Internationalization increases companies' exposure to global regulations and legitimizing agents, such as multilateral or international NGOs that track the social and environmental impact of companies on a global scale (Gómez-Bolaños et al., 2019). These pressures are highly dependent on the institutional, cultural, and social context of the host country. Similarly, they also depend on the institutional background of the company, which shapes its fundamental features such as culture, operating and management methods, and reputation.

Against this backdrop of complexity, emerging markets multinational enterprises (EMNEs) are faced with an incredible effort to gain this legitimacy and thus successfully establish themselves in host countries. Emerging countries are often viewed with distrust by more developed ones. Very often, such different cultures give rise to stereotypes and mistaken beliefs about the activities of companies in those countries (Pant and Ramachandran, 2012). In this vein, Southeast Asia as well as India and China – just to mention a few – bear a heavy legacy rooted in the history of the past decades. In addition, these countries are also among the most affected by extreme weather events (Eckstein et al. 2021). Despite all this, they have gradually become major players on the global stage, moving from being developing economies to carving out a dominant role in the world economy. Often, however, these societies have failed to keep up with the insane pace of their growth causing significant environmental and social issues such as pollution, overpopulation, poverty, and many others (Maizland and Albert, 2020).

These factors have exacerbated even more the image that developed countries have towards them by shaping their reputation as polluting countries. Moreover, the backward institutional situation in these countries has not made it possible for regulations to be adjusted on these issues, effectively enabling foreign multinationals to exploit looser regulations and poor social conditions to their advantage. Although there have been cases where multinationals have moved their operations to less developed countries to escape the costs of compliance derived by the home countries' stricter regulations, we will see how this phenomenon does not actually occur that often. On the contrary, many studies have shown that, not only does it not happen that often, but actually multinationals contribute to the cross-border transfer of environmental best practices by raising the sustainability standards of the host country and thus improving the performance of both their own and other companies in the territory but also of local institutions that try to adapt to the new level of standards (Pinkse and Kolk, 2012).

Therefore, as we can see, there are multiple points of connection between internationalization and environmental and social aspects. Considering this, it becomes significant to analyze the relationship between the internationalization of individual MNCs and how they integrate these environmental and social aspects within their business activities. This is the main reason for this research.

In this regard, the purpose of this study is to investigate whether there is a positive relationship between internationalization and corporate sustainability.

In order to do this, we built a sample of multinational corporations headquartered in Southeast Asia and then performed a linear regression to study the correlation between the two variables. We have chosen Southeast Asia – and in particular the Association of Southeast Asian Nations (ASEAN) – as the region to analyze for all the reasons mentioned above and also because, unlike the Chinese and Indian context, it has not yet been exhaustively explored in the international business literature.

Our study contributes to international debates with several insights.

First, our results confirm the positivity of the relationship of the two variables, albeit to a limited extent. Even though they are not perfectly correlated, these results take on considerable importance because they confirm the existence of those points of connection that we discussed earlier and lay the groundwork for more in-depth analyses.

In addition to this, this paper also contributes by providing an innovative approach to explore the consequences of shifting operations abroad on the individual components of the ESG framework. In fact, we have broken down the measure of corporate sustainability – the ESG Score – into its three component parts: the environmental, the social, and the governance ones. By doing this we were able to analyze the influence of internationalization of multinationals on individual aspects of corporate sustainability by understanding their individual relationships. This allowed us to give continuity to the theoretical background of this study by observing a sharper relationship with the environmental component, a less clear but still positive relationship with the social component, and finally a null or rather negative relationship with the governance component.

Moreover, this decomposition also allowed us to contribute to the vast organizational design literature. By analyzing the relationship between internationalization and the governance component, in fact, we found that the latter is strongly related to the kind of industry and especially to the firm size of the multinationals – measures adopted as model control variables. This finding follows the line that asserts that as the size of companies increases, organizational complexity increases and thus the need for appropriate governance practices.

Our study shows that there is also a significant relationship between CS and industry type. Distinguished between manufacturing and services industries and always included as a control variable, industry type allows us to support the recent trend studying the influence of internationalization on CS by analyzing only companies that are part of the same industry. Once again, this lays the groundwork for future research.

Finally, due to the significance of the positive relationship between the variables, the results allow us to reject the pollution haven hypothesis. Despite this, however, to fully address this issue would require further analysis perhaps with the addition of other control variables.

The structure of this paper is as follows.

In the next chapter, we review related literature by examining in detail the development that internationalization and CS have experienced over time. We will analyze in depth the contributions of home and host countries to the issue of legitimacy, with a focus on the context of multinational corporations originating from developing countries. We will also look further into the connections between the two variables analyzing the reasons why international expansion influences CS.

Then, we present our data and methodology. We will first provide a contextualization of the analysis through how we set up the study. Then we will show you how we constructed our analysis sample, how the variables in the model were identified and measured, and finally the results of these analyses.

Finally, we have included discussion and conclusion sections where we will highlight the main contributions that can be derived from this analysis as well as limitations and future lines of research.

Chapter 2 – Theoretical Background

2.1 Corporate Sustainability and Internationalization

In recent years companies have been struggling to establish their position in the markets. The fierce competition and the constantly changing paradigms of the global scenario are putting a strain on the firms, making it much more difficult for them to survive. In addition, Covid19 pandemic has enlarged these effects establishing new benchmarks for the evaluation of a firm performance – and so shifting the emphasis to new critical factors underlying a firm survival and its success – that go beyond the mere financial result.

First and foremost, the notion of sustainable development. Sustainable development was defined as the "development that meets the needs of the present without compromising the ability of future generations to meet their own needs" in the Brundtland Report (World Commission on Environment and Development, 1987: 8). Starting from this definition, the literature integrated the notion of sustainable development into the traditional bottom line of a firm continuously adapting it to the changing needs of society. Therefore, we see the introduction of new concepts such as the Triple Bottom Line (Elkington, 1994, 1998; Elkington, Emerson, & Beloe, 2006, p. 27) and finally Corporate Sustainability (CS). Lozano (2011, p. 50) defined CS as the "corporate activities that proactively seek to contribute to sustainability equilibria, including the economic, environmental and social dimensions of today, as well as their interrelations within and throughout the time dimension while addressing the company's system". Therefore, CS assumed a strategic role in the corporate decisions, leading firms to pursue environmental, social, and governance objectives to become more competitive. Unsurprisingly, the adoption of Environment Social and Governance metrics (ESG) incentivized the firms to become more sustainable with the prospect of being better evaluated, of achieving a good reputation, of being more attractive to the investors.

Another possible path for the companies to strengthen their position is to internationalize. Internationalization is defined as the process "through which a firm expands the sales of its goods or services across the borders of global regions and countries into different geographic locations or markets" (Hitt et al. 2014). There are multiple reasons that push firms to expand their business abroad. Firstly, internationalization is a corporate strategy that allows firms to increase their competitive advantage through the economies of scales. In fact, it is a way to explore growth opportunities obtaining multiple benefits such as new resources, new knowledge, increased turnover, and new production capabilities (Hitt et al. 1997). In addition, it is a way to differentiate the parent company's portfolio based on the geographic distribution. At the same time, moving to other markets is characterized by some drawbacks as well. Zaheer (1995) identifies the liability of foreignness as the major shortcoming that firms face in foreign markets. In particular, he stated that a foreign firm will always incur some additional costs that make its total costs higher than local firms, resulting in lower profitability, a competitive disadvantage, and so a lower probability of survival. In other words, going abroad is riskier than staying at home and the potential profit is normally not worth the risk. Other possible shortcomings are the hostility of the international environment and the consequent pressure that an enlarged number of stakeholders may exert (Zahra and Garvis, 2000).

Literature is extensively studying the relationship between CS and Internationalization. Initially, scholars seemed to converge toward a close positive correlation between the two variables, but then the linkage is getting more complicated over the years.

One of the first contributions was made by Kennelly and Lewis (2002), stating that a higher level of internationalization evinces better environmental performance scores. A few years later, Sharfman, Shaft and Tihanyi (2004) identified strategic and institutional pressures arising from the exposure to foreign markets, highlighting the positive impact they have on the firms' environmental efforts. They found out that the environmental performance was "becoming a response to global pressures rather than to specific local regulations". This is confirmed, for instance, by a study conducted on 99 Korean construction companies by Park and Ahn (2012) where they show that internationalized contractors integrate environmental issues in their corporate strategy more than their local counterparts.

Bansal (2005) proved that there is a significant relationship between international experience and corporate sustainable development. She examined a sample from Canada's forestry, mining, and oil and gas industries also investigating the time-related effects of international experience on corporate sustainable development. In particular, she showed that there were no relevant time-related effects, making the different stages of the internationalization process unrelated to the purpose of the analysis.

Subsequently, Chen et al. (2016) analyzed a sample of 63 publicly listed firms in the construction industry investigating the impact of environmental strategy choices on the level of internationalization of firms. It turned out that higher degrees of environmental strategy result in greater internationalization but only if they adopt preventive environmental strategy instead of proactive ones.

Gómez-Bolaños et al. (2019) added then an important aspect giving a fundamental contribution to the existing literature. They claimed that there is a positive relationship between internationalization and environmental management – intended as “the effort undertaken by firms to implement changes in the organizational structure, the responsibilities, practices, procedures, processes and resources meant to achieve and maintain a specific environmental behavior that can reduce the impact caused by enterprise operations on the natural milieu” (Claver et al. 2007, p. 606) – but at the same time they did not find enough evidence about the same relationship between internationalization and the environmental performance – defined here as the “the environmental impact that the enterprise's activity has on the natural milieu” (Claver et al., 2007, p. 606). They give two possible and related explanations about this discrepancy: the first one is that firms that increase their degree of internationalization start focusing on implementing a better environmental management more than actually looking for higher environmental performances; the second one is that the reason behind this choice usually lies in the search for legitimacy through the consolidation of “a solid green image of the firm” (Gómez-Bolaños et al. 2019). Not for nothing, they showed that environmental management became an instrument in the hands of the firms to attain global legitimacy.

Strike (2006) perfectly outlined the analysis context stating that “it is misleading to simply say that internationalization is either good or bad for CS”. In this regard, the study of Park (2018) assumes considerable relevance. They focused on multinational companies from emerging markets demonstrating that not only internationalization increases sustainability strengths – in accordance with the previous literature – but it is also the reason behind the increase of sustainability concerns. It is up to the managers to properly balance those effects. Internationalization enhances sustainability strengths because managers are motivated to adopt sustainability practices in order to address the issue of legitimacy in foreign markets. Simultaneously, it increases sustainability concerns because of the potential decoupling of subsidiaries from the CS strategy of the headquarters (Ciasullo et al. 2020). Both sides will be addressed properly in the next sections.

2.2 The legitimation process and the role of the host country

International firms are naturally exposed to global norms and global legitimating actors, but they also face institutional pressures in each foreign country where they settle (Marano and Kostova, 2016).

One of the most difficult challenges they must deal with is stakeholder pressure. As mentioned before, expanding the activities toward other countries inevitably causes an exponential increase of the set of a firm's stakeholders (Zahra and Garvis, 2000). It follows that, the higher is the visibility of a firm at an international level, the more it will be subject of scrutiny of their activities by stakeholders, the more it will look for a global legitimacy to maintain – or to increase – its competitiveness (Yu et al. 2017). In this respect, numerous studies bring evidence that those pressures are the main driver that push firms to develop environmental innovation (Sharma et al. 2005; Kassinis and Vafeas, 2006). In fact, potential corporate scandals lead to negative assessments that may damage the firm's reputation and increase stakeholder activism, forcing firms and their suppliers to improve their social and environmental practices (Daudigeos et al. 2020).

In the same manner, the firm's legitimacy to gain stakeholders recognition in international contexts is increasingly dependent on its environmental behavior, making firms progressively assessed in terms of operations' sustainability. This takes international top firms to a continuous quest for legitimation through voluntary environmental disclosures – such as sustainability reports and others – even if they have a lower environmental performance than their competitors, giving rise to unregular activities such as greenwashing (Gómez-Bolaños et al. 2019). In confirmation of this, Huang and Kung (2010) conducted a study from a sample of 759 Taiwanese publicly listed firms finding a significant positive relationship between their environmental disclosure and their stakeholders' expectations. They showed that the motivations that brings firms to disclose environmental information "responds to their need to be legitimated by stakeholders' perceptions of their action" (Gómez-Bolaños et al. 2019).

Nevertheless, the process of legitimation is notably challenging for multinational companies (MNCs) as they aim to gain and preserve legitimacy in numerous institutional environments characterized by different regulatory systems and different cultures and traditions (Pant and Ramachandran, 2012). Moreover, the analysis of this process appears even more complex because of the controversial role of MNCs. In fact, MNCs are often held responsible for shifting their polluting activities to countries with laxer environmental policies (Ben-David et al. 2021), and this contributes to their difficult establishment. However, this aspect will be addressed more extensively in the next sections.

Scott (1995) identified three types of organizational legitimacy: regulative, normative, and cultural-cognitive. Subsequently, Kostova and Zaheer (1999) demonstrated that cultural-cognitive legitimation was one of the major issues for companies entering new markets and they focused on the centrality that it assumes in the process of MNC legitimation in host country institutional environments. Previously Scott (2008), and then Pant and Ramachandran (2012) defined the cultural-cognitive legitimation as the "progressive attribution of desirability and propriety to the subject of legitimation over time" through the alignment of the firm's activities with the local cultural-cognitive context.

In support of this line, Gomez-Bolaños et al. (2019) found that the relationship between internationalization and environmental management is relevant when firms expand toward developing countries. Considering that developing economies' share of global FDI inflows is growing exponentially – accounting for the 36 percent of the total in 2016 and raising to 47 percent in 2017 - according to the World Investment Report of the UNCTAD (2018), international firms can be particularly effective in the cross-border transfers of environmental best practices filling institutional voids through the expertise acquired.

It follows that environmental management effectively becomes a useful instrument for achieving global legitimacy when firms have high volumes of operations in developing countries.

2.3 The legitimation process and the role of institutional development in the home country

At the same time, even the level of institutional development in the home country plays a determining role.

Kostova (2008) stated that it shapes the capacity of the firm to acquire knowledge in the international markets and to convert it into new products, processes, or technologies. In fact, the home country affects firms not only influencing their approach to domestic and international businesses – through sets of rules, institutions, and conventions (North, 1990) – but also influencing their strategies – through the availability of economic resources, infrastructure, and labour quality (Wan and Hoskisson, 2003). Some studies even claim that governments and public policymakers are the main drivers for the development of environmental innovation (Carrillo-Hermosilla et al. 2010). For instance, poor institutional development levels at home can represent an obstacle to innovation because of the higher costs and uncertainty that existing institutional gaps bring to the firms.

Emerging market multinational enterprises (EMNEs) face harder legitimacy challenges linked to negative images in the global market. Firstly, they need to overcome the liability of foreignness. As mentioned before, firms always face higher costs and uncertainty in a foreign market resulting in competitive disadvantages. In the EMNEs case, those disadvantages are considerably enlarged by the absence of reliable market intermediaries (Xie and Li, 2017). In addition, EMNEs do not possess the necessary skills and inputs to take advantage of the knowledge acquired in the foreign market and to coordinate businesses across boundaries. When a firm from an emerging country expands its business beyond the national border encounters extremely different and distant environments and it usually lack the tools to integrate the valuable lessons learned into its organization (Wang and Ma, 2018). At the same time, another school of thought argues that emerging country firms benefit more from internationalization than developed country ones. The arguments in support of this hypothesis lies on the EMNEs habit to conduct business in harsh conditions. Cuervo-Cazurra and Genc (2008) showed that EMNEs expand into other countries with low institutional development more easily than developed countries MNCs because they are used to the institutional vacuity and so they know how to handle those market conditions.

It must be said, however, that usually EMNEs decide to internationalize their operations to get as far as possible by the institutional voids that characterize their home country (Gomez-Bolaños et al. 2022).

Nonetheless, the situation for EMNEs gets even more complicated when they expand toward more developed countries. In this context Pant and Ramachandran (2012) provide us with a relevant model derived from the study of the internationalization of Indian software firms in the United States. The model is particularly demonstrative because Indian firms struggled to obtain cross-border legitimacy in a demanding market as the United States in the nineties.

The authors identified three challenges to legitimation in a developed country. Firstly, the mentioned liability of foreignness that has already been addressed in the previous scenario. They come to the conclusion that to overcome this challenge is required a two-way familiarization between the EMNE and the host country (Kostova and Zaheer, 1999). Secondly, they face liabilities of origin. EMNEs need to overcome the negative perceptions that host countries have regarding the political and economic unpredictability of the home country which often leads to negative country images or negative product country images (Pant and Ramachandran, 2012). Explaining those phenomena more clearly, it can be said that while the liability of foreignness is the consequence of the disadvantages of not being local, liabilities of origin disadvantages are generated by the specific nationality of the firm. In this case, the two-way familiarization is not enough to overcome the challenge. In fact, to gain legitimacy it is necessary for the EMNE to break the negative beliefs present in the host country and then to build a strong reputation through the adoption of proper practices (Ramachandran and Pant, 2010). Finally, EMNEs face the liability of advantage. All the disadvantages arising from expanding into developed country markets have been highlighted so far. The liability of advantage consists of the fact that EMNEs, when they decide to move abroad, must necessarily possess compensating ownership advantages – intended as innovatory, cost, marketing, or financial advantages specific of the firm – over local firms to counter all the costs that those disadvantages bring with themselves (Pant and Ramachandran, 2012).

Obviously, those ownership advantages mostly depend on the institutional context of the home country. Moreover, an extensive literature states that the advantages owned by the EMNEs are usually quite different from the developed countries MNC ones, and they usually are low-cost value-creation processes, fast follower capabilities, resilience in challenging institutional environments, expertise in labor-intensive and mass production, and routines of improvisation (Luo and Tung, 2007; Cuervo-Cazurra and Genc, 2008; Chittoor et al. 2009; Pant and Ramachandran, 2012). In addition, to overcome all those disadvantages EMNEs must not only develop and bet on their operational advantages but they also need to create and strengthen solid learning processes that boost strategic resilience in the international network (Ciasullo et al. 2020).

In conclusion, it is possible to state that global strategy "is not merely about developing competitive advantage but also about overcoming competitive disadvantage" (Powell, 2001).

The recent shift toward new critical factors in the evaluation of a firm's performance has allowed ESG efforts to carve out a central role in the present-day firms' activities, becoming one of the most important aspects in the global legitimation process. ESG scores became not only a sort of operational advantage on which international firms can leverage when they look to establish into a new market but also a powerful instrument to overcome those competitive disadvantages arising from operating in foreign markets – even if sometimes the ESG effort is only apparent.

Overall, it is therefore possible to say that the search for global legitimacy drives managers to adopt sustainable practices, hence an increase in the internationalization of firms results in a higher CS.

2.4 Sustainability concerns and the pollution haven hypothesis

It has been observed that MNCs and host countries have a reciprocal influence on each other. Internationalization is a continuous process characterized by the exchange of information and knowhow between firms and host countries where firms can calibrate their activities in accordance with host countries' demands and host countries can take advantage of foreign firm's experience (Gomez-Bolaños et al., 2019). At the same time, there is an exchange of information and knowledge even within the firm, that is between the headquarters (HQ) and the foreign subsidiaries.

In this context, EMNEs may be subject to the decoupling phenomenon. This phenomenon consists of either the failure or the incomplete transferring of practices and procedures (i.e., CS) from the parent company to foreign subsidiaries, even if the HQ commitment in those practices is particularly high (Park, 2018). Extensive literature dealt with this issue concluding that it is predominantly an institutional matter. Kostova (1999) and others stated that decoupling between the transferred practices is certainly more likely in presence of a greater institutional distance between the institutional environments of home and host countries.

Another aspect to consider is the organization design of the MNC. The degree of autonomy of the subsidiaries derived by the international strategy and by the structure of the firm plays an important role in the knowledge transfer between HQ and subsidiaries (Park, 2018).

Foreign subsidiaries usually face institutional duality. They are subject to two different institutional pressures – the host country and the home country one – that make it difficult to preserve legitimacy within MNEs and host countries (Kostova and Roth, 2002). In fact, depending on how much the international strategy is focused on local responsiveness or global integration, the autonomy level of subsidiaries will be different (Besanko et al. 2017). For instance, a pure multidomestic strategy – characterized by independent decentralized systems focused on localization issues – will have a limited coordination between the parent company and the subsidiaries. This poor coordination would probably result in a lower knowledge transfer than a firm adopting a pure global strategy – based on centralized systems where there is no adaptation to local markets and the strategic role of subsidiaries is very limited (Besanko et al. 2017).

Concerning the mentioned institutional duality, let us look deeper into it.

Foreign subsidiaries receive input from both the parent company – in terms of operational and strategic guidelines and firm's culture and practices – and the host country environment – in terms of external pressures and local necessary adjustments.

However, international firms are dependent on managers regarding the management of foreign subsidiaries (Roth and O'Donnell, 1996; Kang, 2013). Subsidiaries managers are subject to different external environmental stimuli from HQ managers. This disparity can lead to a misalignment between their sub-goals which in themselves can be misaligned with firms' strategic and organizational goals (March and Simon, 1993). This misalignment may lead to the managers' rejection of internalizing organizational values and practices from HQ when they do not coincide with managers' goals. Moreover, managers undergo heavy pressures about the implementation of certain directives because of the constraints regarding parent companies' resources such as capital, technologies, and managerial expertise (Park, 2018).

At the same time, it can happen that some subsidiaries are too distant from the HQ – both in terms of physical and cultural remoteness – and managers are not able to keep pace with HQ's policies (Park, 2018). In this remoteness case, where subsidiaries become "separate silos within organizations" (Bromley and Powell, 2012, p. 499), the decoupling phenomenon finds fertile ground.

This complexity in the relationship between the parent company and foreign subsidiaries increases sustainability concerns in the global market because internationalization forces managers to face "management challenges in coordinating, integrating and exchanging complex information and resources among geographically dispersed subsidiaries" (Park, 2018). In this respect, Strike et al. (2006) stated that internationalization is positively related to corporate social irresponsibility.

Other possible reasons behind the decoupling phenomenon can be a discrepancy in the reference system used between parent company and foreign subsidiaries (Simon, 1997) and the tolerance of diversity of the foreign firms in host countries (Kostova et al., 2008).

However, internationalization is related to another phenomenon that has been widely discussed by international business literature. This phenomenon is known as the pollution haven hypothesis. It consists of developed countries firms offshoring their operations in less developed countries to take advantage of laxer regulations that allow them to cut all the costs related to sustainability and pollution reduction measures (Li and Zhou, 2017). Obviously, developing countries usually have more tolerant regulations than developed ones due to weaker institutional settings. As a result, developed countries firms that expand their activities toward developing countries will have a lower motivation to adopt the proper environmental standards that they adopt in their HQ (Gomez-Bolaños, 2019).

Given the centrality that the role of multinational companies has always played – both in the business research and in the public opinion – and the label that multinational companies have allotted as the responsible of turning third world countries into pollution havens, these implications have been debated for decades.

Recent studies converge to the rejection of this hypothesis by proclaiming instead that MNEs on average foster better environmental performance (Kennelly and Lewis, 2003; Chen et al., 2016). First, the above-mentioned institutional vacuity in developing countries jeopardizes foreign firms entering the market (Pinkham and Peng, 2017). This is the reason why, according to Tatoglu et al. (2014), MNEs adopt voluntary environmental management practices in the host countries to compensate those institutional voids. Here again the risk of misrepresentations and greenwashing becomes particularly high.

Leaving aside for the time being this aspect, it is possible to state that MNEs contribute to the cross-border transfers of environmental best practices and of various kinds of expertise acquired elsewhere (Pinkse and Kolk, 2012). In this vein, Christmann and Taylor (2001) demonstrated that MNEs transfer advanced environmental technology to their subsidiaries. Usually having subsidiaries in more than one foreign country, the parent company might have to deal with a different regulation in each of them. At this point, pollution haven hypothesis assumes that MNEs will behave opportunistically by adapting their subsidiaries practices to the specific lax environmental regulation in each country or by "devolving their activities to the lowest common denominator" (Sharfman et al., 2004). As a matter of fact, being much more expensive to simultaneously develop and manage different environmental management schemas, Sharfman et al. (2004) and Christmann and Taylor (2001) proved that MNEs usually uniform the environmental management standards of every foreign subsidiary to the strictest country regulation. It turns out that not only internationalization may effectively improve the environmental performance of the firm but also the firm's engagement in environmental actions may improve its competitiveness along with refuting the pollution haven hypothesis (Gomez-Bolaños, 2019). In support of this, Gomez-Bolaños (2019) state that MNEs find less incentives to behave opportunistically by relocating their polluting activities into the foreign countries while Eskeland and Harrison (2003) carried out a study where they found that MNEs that expand toward developing countries pollute less than their local counterparts, maintaining higher environmental standard despite the laxer regulation.

And linking back to the legitimacy considerations, adopting higher levels of environmental standards in developing countries may be a successful instrument to display an environmental commitment and therefore to achieve global moral legitimacy (Aguilera-Caracuel et al. 2011; Gomez-Bolaños, 2019). It should be highlighted that, as mentioned before, MNEs bring knowledge and expertise to the host country favoring the country development. Similarly, MNEs may improve the host countries' environmental standards. In fact, it has been proved that "as industry leading firms define environmental performance as a source of competitive advantage, follower firms feel pressure to adopt such practices" (Sharfman et al., 2004).

Following a different vein – where the supranational aspect of climate change is considered – Kim et al. (2015) analyzed 436 Korean manufacturing firms. They showed that there is a positive relationship between internationalization in developing countries and the firm's profitability. Contextualizing this study, it is possible to assume that an increased profitability can influence environmental strategy because the firm will be able to afford more environmental investments (Gallego-Alvarez et al. 2017).

In conclusion, despite it has been widely investigated for years, it becomes essential to say that the relationship between internationalization and CS is more complicated than it seems. When a firm decides to internationalize, it must deal with a wide range of factors that may affect – positively or negatively – each corporate practice including all the CS aspects. It is the responsibility of the managers to consider the totality of the implications to properly increase sustainability strengths, thereby lessening the impact of sustainability concerns.

Chapter 3 – Research Methodology

3.1 Study setting

This study was conducted by using data obtained from the Association of Southeast Asian Nations (ASEAN) emerging market multinationals. ASEAN is an appropriate research for several reasons.

ASEAN is an intergovernmental organization that congregates disparate neighbouring countries to address economic, security, and political issues (Maizland and Albert, 2020).

The main reasons behind the creation of this organization trace their origin to the complex historical and geopolitical context of the 1960s. Firstly, founding countries wanted to build a common front against the spread of communism. Secondly, they wanted to promote political, economic, and social cooperation in the Asia-Pacific region through the signing of the Treaty of Amity and Cooperation in Southeast Asia, which settled mutual respect and non-interference in other countries' affairs (Maizland and Albert, 2020). Indeed, the group effectively contributed to regional stability by developing common norms and shared challenges but most importantly it played a crucial role in Asian economic integration, forming one of the world's largest free trade blocs. Conversely, the lack of a strategic vision, the differences between member states resulting in diverging priorities, a weak leadership, and the inability to stand up to Chinese influence in the South China Sea led to a limited impact on the group objectives (Eckstein et al. 2021).

Formed in 1967, it includes ten Southeast Asian countries: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam. Collectively, with 661.8 million in 2021, ASEAN has the third-largest population in the world – after India and China – and it has become the fifth largest economy in the world – after the United States, China, Japan, and Germany – with a total GDP of US$3.0 trillion (The ASEAN Secretariat, 2021). Experiencing an average annual growth of 5.0% in the last two decades with a recorded inflows of foreign direct investment (FDI) of $174 billion in 2021 (United Nations Conference on Trade and Development 2022), the ASEAN is one of the most dynamic economic regions of the world. Therefore, the environmental, social, and economic issues in the region assume a particular relevance both at the local level and to the rest of the world.

The economy of the region is tied with its diverse energy resources, high-level urbanization, and rapid growth and industrialization. The pace of this economic growth raised sustainability concerns based on environmental pollution, deteriorating energy security, and economic distress in terms of energy investment (Karki, Mann, and Salehfar 2005).

At the same time, the region is one of the most vulnerable to climate change because of its unique geography. ASEAN countries' welfare and growth is increasingly threatened by the tragic outsized impacts that climate change is causing in both human and material terms. The Long-Term Climate Risk Index (CRI), an analysis based on the impacts of extreme weather events on the countries worldwide, ranks Myanmar, the Philippines, and Thailand among the 10 most damaged states in the world from climate change related events over the past 20 years (Eckstein et al. 2021). Episodes such as severe flooding, typhoons, and other extreme weather events increase the prospect of large-scale loss of fertile coastal land as well as catastrophic impacts on the countries' water supply, agriculture, and thus on their economy (Overland et al. 2020).

Despite all the threats and the centrality of climate change issues in the region, ASEAN efforts on climate change mitigation do not appear to be adequate (Overland et al. 2020). The regional context, in fact, is characterized by some relevant barriers to a proper sustainable development. Economic diversification, lack of institutional infrastructures, political conflicts, lack of appropriate legislation and policies for energy sector reform are the major ones. First, member states have a multiplicity of diverse natural resources which are minimally or not exploited. They continue to subsidize fossil fuels, which accounted for 85% of the growth in primary energy demand over the last 20 years, while renewables energy covered just 15% of regional energy demand in 2019 (Overland et al. 2020). Carbon emissions limitation is light years away from how it should be, considering the rapidly growing transportation sectors – accounting for the 27% of the region's CO_2 emissions in 2018 –, the low penetration of renewables in any energy sub-sector, and the urban air quality of the ASEAN megalopolises (Overland et al. 2020). Also, forest management and international cooperation on energy issues should be handled as cornerstones of legislative and institutional policies. In this vein, the development of a common and appropriate institutional structure and decision mechanism among the countries is urgently necessary (Karki, Mann, and Salehfar 2005).

In conclusion, given the growing importance it is globally acquiring on an economic and geopolitical level, and given the huge impact of climate change related issues on this region, ASEAN needs to play a crucial role in the climate change fight. It is precisely for this reason that the sustainability path ASEAN EMNEs are pursuing and spreading through international expansion should be subjected to careful scrutiny.

3.2 Sample selection

A total 294 ASEAN multinationals were identified using the Refinitiv (formerly Thomson Reuters Eikon) database with defined criteria:

a) country of incorporation (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, Vietnam),

b) engagement in FDI,

c) engagement in ESG disclosures.

Data was collected for a period of eight years, from 2013 to 2020.

Table 1: Distribution of EMNEs by Country of Origin

Country of headquarters	N° of EMNEs
Singapore	11
Malaysia	10
Indonesia	5
Philippines	5
Thailand	5
Total	**36**

Source: Refinitiv, 2022

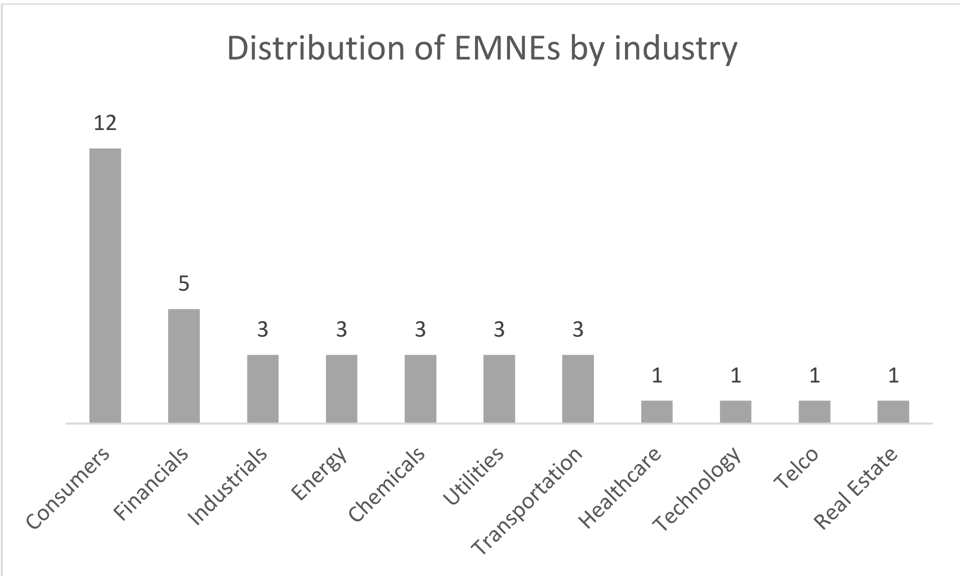
The period considered is particularly relevant for the purpose of this study. First, in 2015, the Paris Agreement on climate change – a legally binding international treaty that brings all countries together to fight climate change (UNFCCC 2022) – was implemented setting a global agenda for sustainable development. Recognizing that accelerated action is required globally to limit climate change impact on the entire world, all the countries – and consequently all the companies, especially MNCs – started converging toward long-term policies and strategies to adopt sustainable practices and reduce their impact on the planet (Gomez-Bolaños et al. 2022).

Second, following this trend, the rising awareness of these issues, the rise in the use of renewable energy and the possibility to directly compete with fossil fuels, and the institutional pressures to embed climate change concerns into companies' business strategy make an empirical analysis of the practical implications necessary as well as intriguing.

Returning to the sample, all the firms that had missing values of at least one ESG score or about their international revenues throughout the analyzed period were excluded from the analysis. All those firms that did not have foreign subsidiaries were excluded too. Table 1 shows the composition of the sample based on EMNEs' country of origin. Thus, the resultant EMNEs taken under consideration are headquartered in 5 of the 10 ASEAN countries: Singapore, Malaysia, Indonesia, the Philippines, and Thailand. The reason behind this selection lies in the difficulty of gathering data from the other countries' multinationals and the absence of multinational companies in some of those countries.

Therefore, a sample of 36 ASEAN EMNEs was considered appropriate for the purpose of analysis. Figure 2 shows the distribution of sample companies by industry.

Figure 1: Distribution of EMNEs by Industry



Source: Refinitiv, 2022

3.3 Variables and measures

We perform a linear regression to analyze collected data using R studio statistical software. We used the OLS method, which is one of the most common procedures for data analysis within the international business literature (de Vasconcellos et al., 2019).

As dependent variable for this study we used CS. We measured CS as the Refinitiv (formerly Thomson Reuters) ESG Score, a score that takes continuous numerical values in a span ranging from 0 to 100 where higher values indicate a better sustainability (Refinitiv, 2021).

We choose Refinitiv as the database for CS measurement because it is one of the largest ESG content collection in the world and it offers a wide range of tools and insights into a multitude of companies (Gomez-Bolaños et al., 2019). Refinitiv ESG Scores have already been used as a measure of CS examining firms' environmental impacts in similar studies (e.g., Park, 2018; Cubas-Díaz and Martínez Sedano, 2017). In one of these – Park, 2018 –, the ESG Controversies Score was used as a measure of sustainability concerns as opposed to the sustainability strengths measured with the ESG Score, but its use would not be meaningful for the purpose of this research. ESG Score measures the company's ESG performance, commitment, and effectiveness based on over 630 ESG measures and metrics which are grouped into 10 categories that collectively compose 3 pillars: environmental, social, and governance. For the purpose of the analysis, the individual components related to the three pillars were also analysed individually. Each category belonging to the environmental and the social pillars is weighted according to the industry of the company, in order to consider all the aspects that allow a comparison between each industry group. The governance categories maintain the same weights across all industries.

The information was obtained from the "ESG Statement" available in the "Environmental, Social & Governance" companies' section in the Refinitiv database. All data are based on publicly reported information.

The measurement of Internationalization, on the other hand, was a little more complicated and it was obtained only after a few attempts.

Initially, we considered the number of foreign subsidiaries of the EMNEs. Unfortunately, for the period and the companies under consideration, it was not possible to retrieve enough data regarding this measure. Subsequently, we measured the independent variable by creating an internationalization index. The index was calculated using the ratio of firms' foreign revenue to their total revenue which is the most used proxy for the degree of internationalization in the international business research (Kang, 2013).

At this point, further consideration was given to the following. As the focus of the paper was related to analyzing the direct relationship between international expansion and CS, we considered it more appropriate to use the absolute values of foreign revenues instead of the ratio. Additionally, first we converted the set of foreign revenues into USD dollars – given the multiplicity of currencies adopted by the countries under investigation – and then we transformed it into a normal variable using the natural logarithm. By doing so, such transformation enables higher degrees of comparability among data, increasing the validity of the associated statistical analysis.

Similar to the previous variable, this information was obtained from the variable "Consolidated Segment Revenue" in the "Geographic Line by Statement Item" companies' section in the Refinitiv database. All data are based on publicly reported information.

Several control variables at firm and industry level were added to the model to take into consideration some factors that usually affect the dependent variables.

On the firm level, we controlled the firm size and the profitability. Prior studies found that those two variables influence the CS activity of a firm (Park, 2018) and therefore they were included in the analysis. In particular, profitability has been shown to positively influence the environmental strategy of companies, as companies with financial performance have more resources to invest in environmental actions (Gallego-Alvarez et al., 2017). We measured firm size using the natural logarithm of firms' total revenue while profitability was measured as return on equity (ROE).

On the industry level, we used a dummy variable to include the variable industry. Even in this case, past research has shown that the type of industry being considered affects Corporate Social Responsibility (CSR), and consequently CS (Yin, 2017). Having figured this out, we divided the industries to represent two industry categories, manufacturing and service. We gave the first one a value of 0 and the second one a value of 1.

Data for all the control variables were obtained using the Refinitv database.

3.4 Results

We assumed that when EMNEs expand their business abroad they increase their CS, even if literature showed us that there are some factors acting in different directions increasing strengths or concerns for sustainability.

At this point, a linear regression was performed to examine the relationship between the international revenues and the ESG Score of the companies but also to investigate the effects that internationalization has on the individual components of CS.

Table 2 shows Pearson correlation coefficients for all dependent, independent, and control variables included in the models. The descriptive statistics for all variables point out the mean, the standard deviation, and minimum and maximum values for all variables.

Table 2: Correlation matrix and descriptive statistics

Variables	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**
1. ESG Score	1							
2. Environment Score	0.858	1						
3. Social Score	0.931	0.788	1					
4. Governance Score	0.688	0.350	0.474	1				
5. Internationalization	0.423	0.417	0.406	0.218	1			
6. Firm Size	0.354	0.334	0.317	0.250	0.821	1		
7. Profitability	-0.153	-0.131	-0.101	-0.127	-0.207	-0.013	1	
8. Industry	0.110	0.199	0.011	0.110	-0.056	-0.169	-0.132	1
Min	5.14	0	4.55	1.79	3.76	5.36	-0.55	0
Max	88.86	92.57	96.95	91.64	10.19	10.53	0.49	1
Mean	48.42	46.44	49.62	49.96	7.08	8.12	0.11	0.50
Standard Deviation	1.16	1.37	1.42	1.37	0.08	0.07	0.01	0.03

Results support the hypothesis that internationalization increases sustainability strengths to a limited extent. The adjusted R-squared – which is a statistical measure that shows the goodness of fit of a model – is equal to 0.191 at a $p = 3.8e^{-13}$ significance level, meaning that only 19.1% of the relationship is explained by this model.

In model 1a, the ESG Score was replaced by its environmental component, measured by the Environmental Score. In this case, the adjusted R-squared equals 0.214 at a $p = 6.7e^{-15}$ significance level, meaning that the proportion of values that can be explained by the independent variable slightly increases settling at 21.4%.

Model 1b describes the behavior of the social component. The use of the Social Score decreases the significance of the relationship. In fact, the adjusted R-squared becomes 0.155 at a $p = 1.5e^{-10}$ bringing the number of values explained to 15.5%.

Although the significance of the results decreases by looking at the social component, it is possible to note that the models behave quite similarly. In the case of the governance component, however, the results change dramatically. Model 1c adopts the Governance Score of the companies as its dependent variable. In this scenario, the adjusted R-squared is equal to 0.086 at a $p = 6.4e^{-6}$ significance level. Thus, the proportion of values that can be explained by this model drops sharply to 8,6% of the total set, meaning that there is almost no relationship between the internationalization of a company and its governance practices.

Table 3: Results of OLS regression analysis

	Dependent Variables			
Independent Variables	**ESG Score Model 1**	**Environmental Score Model 1a**	**Social Score Model 1b**	**Governance Score Model 1c**
Internationalization	4.751*** (1.422)	6.148*** (1.647)	7.599*** (1.770)	-1.166 (1.776)
Firm Size	1.764 (1.692)	1.433 (1.960)	-0.787 (2.107)	6.656** (2.114)
Profitability	-13.032 (11.458)	-5.775 (13.275)	-1.869 (14.268)	-27.961 (14.316)
Industry	5.441* (2.157)	10.604*** (2.499)	1.367 (2.686)	6.772* (2.694)
Observations (N)	288	288	288	288
R^2	0.191***	0.214***	0.155***	0.086***

*$p < 0.05$, **$p < 0.01$, ***$p < 0.001$

Therefore, although there is a positive relationship between the two variables considered, the analysis shows important differences among the three pillars that constitute the ESG Score. In particular, it is possible to notice that while the environment component obtains a higher correlation result than the combined ESG Score, the other two lie below. In fact, the social component behaves slightly worse than the combined one but still maintains a fair degree of correlation, while the governance component breaks away completely.

Chapter 4 – Discussion

Using the last decade as empirical context, we explored the role of the internationalization of firms in the adoption and the development of CS practices.

The last decade has seen an acceleration toward sustainability because of the importance that climate change threats and issues are gaining. Global warming, rising water levels, and increasingly extreme weather events have led all countries to develop a common awareness regarding the need for action to prevent and mitigate the effects that human impact is causing on the planet. But the path is a long way from completion.

First, the concept of sustainability is not common to everybody and is still too uncertain. As we have seen, this concept has transformed over time – moving from the notion of sustainable development to the corporate sustainability one – adapting each time to the social and political context of the moment.

In conjunction with this, the regulatory environment has attempted to conform to the requirements but without succeeding in developing a uniform framework and standards valid for all countries and thus for all companies. This legislative confusion has undoubtedly contributed to the difficulty of comparing sustainability practices adopted by companies and has not allowed the necessary cooperation to fight this common cause. Initiatives such as the Paris Agreement, the Conference of Parties to the United Nations Framework Convention on Climate Change (COP), the Global Reporting Initiative (GRI), and the introduction of the Sustainable Development Goals (SDGs) by the UN Global Compact are some of the attempts to harmonize the legislative and the social scenario ("Homepage | UN Global Compact," n.d.; GRI, 2019; United Nations, 2023).

In this context, therefore, measuring sustainability is quite complex. At the moment, ESG ratings are the only tool that is effective enough to integrate environmental, social, and governance sustainability indicators, but at the same time it is still not sufficient to capture all the facets of the companies' activities. In this regard, the quest for such uniformity must necessarily take a supranational form and move away from the individualistic and national outlook that has marked modern and contemporary society. It is therefore necessary for initiatives to be promoted by international organizations. The European Union, ASEAN, and the UN – just to mention a few – assume considerable importance in steering individual countries toward the common goal.

In this sense, the companies' internationalization fosters the exchange of information, cultures, and best practices, which should thus accelerate this process. This is the main reason behind the search for a positive relationship between CS and companies' internationalization.

As it can be discerned by the paper, literature has failed to find a unanimous opinion on how CS and internationalization mutually affect each other so far. Early studies seemed to converge toward the positive relationship hypothesis, but then each new research added a degree of complexity to the issue.

Sharfman, Shaft and Tihanyi (2004) introduced the strategic and institutional pressures that a firm is subject to when it moves abroad. Gómez-Bolaños et al. (2019), on the other hand, had a great insight by distinguishing environmental performance from environmental management. In fact, they showed that indeed internationalization improves environmental management, but the same positive relationship cannot be found with environmental performance. Lately, studies on the topic have focused on the analysis of multinationals in specific sectors (Cubas-Díaz and Martínez Sedano, 2017) – to address the comparison of similar multinationals and to analyze the industries most related to the energy transition and pollution – or based in developing countries (Gomez-Bolaños et al., 2019) – being the countries with the highest growth rate in the world and considered the most polluting ones by the public opinion.

The contribution this paper seeks to make to the literature falls into this latest trend of analyzing EMNE's international expansion and their sustainability practices. To this end, 36 ASEAN EMNE's were examined to evaluate to what extent the internationalization of companies headquartered in developing countries foster their environmental, social and governance practices. Our model showed that there is a light positive relationship between the EMNEs' internationalization and their ESG Scores.

Beyond that, our results cast a spotlight on the details of the relationships providing an innovative approach for exploring the consequences of shifting operations abroad on individual components of the ESG framework. In fact, looking at the 3 pillars separately, it is possible to extract some important implications.

First, the environmental score has the highest degree of correlation with internationalization not only among all the pillars but also respect to the combined score. The highest exposure of companies engaging in international operations, their seek for legitimacy, the institutional complexity they face in the other countries' context, and the growing attention toward sustainability issues worldwide leads companies to put more effort into adopting better sustainability practices (Yu et al., 2017; Gomez-Bolaños et al., 2019). Looking at the results, it is possible to notice that the kind of industry – represented in the analysis through the use of a dummy variable to distinguish service and manufacturing industries – has a positive significant effect on environmental performance. This is probably due to the specific aspect of sustainability. In fact, it has been proven that sustainability is addressed more efficiently at the industry level because it is easier to compare companies' performances and to face common sustainability challenges that are extremely correlated to the specific industry – e.g., different degrees of complexity of the supply chain, different kinds of resources and materials used in the production, etc.

Second, the social score has a positive relationship with internationalization but the number of values that can be explained by the model are too low to be considered significant. There may be some possible reasons behind this decrease. Probably, the first one lies in the social context of the region analyzed. ASEAN environmentally lags developed countries but still has some examples of virtuous enterprises that were born sustainable or adopted some environmental practices and are most prone to absorb best practices by shifting their operations abroad. Looking at the social conditions, instead, all ASEAN countries are far behind because of the institutional environment and political controversies of the past that have not allowed the development of adequate measures to fully respect social issues such as human or workers' rights (Overland et al. 2020). This is probably not conducive to rapid absorption of best practices in these areas. In addition, it could be symptomatic of a more local characterization of such practices with respect to the environmental ones. Control variables are found to be nonsignificant in the social sphere looking at the analysis' coefficients.

Lastly, the governance score records the worst degree of correlation with internationalization. The results show that unlike the other two individual components, not only is there no statistically significant evidence of a positive relationship between the international expansion of MNEs and their governance practices, but the two variables are also negatively correlated. Looking at the control variables we can then extract some well-known concepts. In fact, industry and especially firm size have a positive significant effect on governance practices. This positive relationship demonstrates the correlation between firm size and the structure of a firm fitting perfectly into the organizational design literature on this subject. Indeed, it is widely agreed that as the size of an enterprise increases, the organizational complexity and thus the adequate governance procedures required to manage that complexity grow significantly (e.g., Donaldson and Joffe, 2014). Profitability, as happens in the other cases, is found to have no significant effect on the governance score.

Overall, our findings show that there is a positive relationship between the two variables, but to a limited extent. Starting from this, and taking into account the differences among individual components, several contributions can be highlighted.

First and foremost, this research contributes to the international business literature by extending the scope of analysis toward an important emerging economy. As already widely covered, ASEAN is increasingly playing a crucial role in the global economy, and it is a region that is still under-researched in the literature especially regarding this kind of analysis. In fact, previous studies on EMNEs focused on other Asian emerging countries such as China (e.g., Ciasullo et al., 2020) and South Korea (e.g., Park, 2018). Additionally, the huge exposure to climate change related events that characterizes this region makes the analysis even more meaningful. So, considering the increasing importance of EMNEs to the world economy and sustainable development (Marano et al., 2017) this research provides interesting theoretical topics and empirical evidence about the main driver of EMNEs' engagement in CS.

Second, our paper contributes to the literature on CS antecedents by empirically showing that internationalization is a driver of sustainability practices. In particular, this study offers a new approach by breaking down the individual aspects of CS into their environmental, social, and governance facets. This decomposition allows us to discover how different aspects of sustainability behave and which are the causes that regulate them. Considering the results, in fact, we can deduce that it is possible to increase the environmental and social performance of a firm by moving its operations outside of its national border – even if in a limited extent – but it is quite unlikely for governance practices to take advantage of it. Indeed, governance practices are much more closely related to the size and the structure of the organization.

Third, this study contributes to the literature on the notion of sustainability and its characteristics of specificity. Results show that the environmental performance is significantly affected by the industry type. This is an important confirmation on what international business literature is researching. In fact, as mentioned before, one of the latest trends is the focus on the analysis of multinationals in specific sectors. The reason behind this choice lies in the fact that sustainability needs to be treated at the local and specific level to allow the understanding and the capture of all the environmental facets that distinguish the companies belonging.

Lastly, we contribute to the literature on the organizational legitimacy and the pollution haven hypothesis. As widely treated, one of the most important aspects that a firm needs to take care of while internationalizing its activities is legitimacy. Especially when a multinational company has its origins in a developing country it is extremely difficult to gain legitimacy and to establish itself in the host country. Additionally, pollution haven hypothesis makes this search for legitimation even more complex because of public opinion. Results of the analysis show that, given the positive relationship between the two variables, this hypothesis is rejected.

Finally, despite governments are establishing environmental policies and agreements related to sustainability objectives and compliance, we find evidence that sustainability challenges cannot be addressed individually by any single national entities, let alone by individual multinational corporations. As mentioned earlier, sustainability is a common issue that affects every country in the world. This is precisely why it needs to be addressed by international organizations – such as ASEAN and the UN – in collaboration with multinational corporations all over the world.

Our work is subject to some limitations.

First, we performed our analysis on publicly available data found in the Refinitiv database. Although Refinitiv database is considered a reliable source of information and offers one of the widest amounts of data related to sustainability – having ESG Scores on a very large number of companies worldwide (Refinitiv, 2019) – it can only include details that firms are willing to disclose. In fact, at the present time, there is no obligation to disclose sustainability-related indicators for the companies and all the information takes the form of voluntary disclosure. Considered the lack of a common standard used by all companies and the ability to shape disclosures at will, it is not possible to rely on the full trustworthiness of the data obtained. In addition, the use of Refinitiv ESG Score as a proxy for CS presents a limitation as well. As we already mentioned, despite it is the most appropriate measurement, it does not capture all the facets that CS is made of.

Second, we did not focus on a specific industry even though we acknowledged that would have been more appropriate. The reason behind this choice lies in the scarcity of multinationals in the region where we decided to conduct the analysis. In fact, since we had only 36 EMNEs that met the selection requirements – belonging to different industries – we decided to go ahead with a more general analysis maintaining the predetermined pattern of analysis. Future research must necessarily collect more data about ASEAN EMNEs to provide more specific analysis and to focus on specific industry or sector.

Moreover, future studies can improve the results of this study by adding other relevant control variables to the used research model. Future research on the boundary conditions of the effects of internationalization on CS can also analyze when and under what circumstances the relationship between internationalization and CS strengthens or weakens. For example, these studies could focus on weak market institutions and institutional gaps in emerging countries (Khanna & Palepu, 2010) and formal institutions in home countries.

Chapter 5 – Conclusion

Our theory and empirics indicate that the internationalization of EMNEs, to a limited extent, improves its CS, and particularly its environmental performance.

This finding is relevant not only to international business debates but also to public opinion, which frequently takes extremely contrary views regarding the activities of multinational corporations. In particular, our purpose is not to defend multinationals by supporting their actions, but rather to debunk the clichés about them by offering an unbiased and comprehensive analysis of the advantages and disadvantages they bring to the countries in which they establish themselves.

We have seen that companies can strengthen their competitive position through the adoption of sustainability practices and by expanding outside their national borders. Obviously, the two practices involve common implications, and their relationship has been investigated for a long time. Studies have shown us that as international expansion increases, both sustainability strengths and sustainability concerns increase (Park, 2018). This occurs because of two well-known phenomena, such as the quest for legitimacy and the decoupling. The reason behind those phenomena lies in the social, political, and economic context of home and host countries. Host countries contribute by increasing companies' stakeholder pressure and causing legitimacy-seeking. Home countries contribute by shaping an image of the company outside of the borders and causing, especially considering EMNEs, legitimacy challenges that must be overcome to gain advantages from internationalization. In this case, EMNEs have found environmental management as a powerful tool to overcome those challenges and obtain global legitimacy. On the other hand, the decoupling phenomenon, institutional duality, and the organizational design of the MNC gave birth to the so-called pollution haven hypothesis. This hypothesis, affirming that MNCs shift their operations to less developed countries with laxer regulation to pollute, is the main cause of the negative opinions about multinational corporations. We help reject this hypothesis in line with previous studies that have highlighted the role of multinational corporations as promoters of cross-border transfers of environmental best practices.

To conclude, it is misleading to simply say that internationalization is good or bad for CS, as well as to say that multinationals are good or bad. The sure thing is that since multinationals play a key role in global balances, they must necessarily advocate for sustainability together with the cooperation of supranational organizations.

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Summary

The issue of climate change is one of the most important challenges facing the entire world. Obviously, extreme climate related events have direct effects on countries and human activities. Given the severity of the repercussions, governments and institutional organizations have been trying for many years now to limit the human impact on the causes of these natural disasters by introducing regulations on environmental and social issues. At the same time, firms internationalize to strengthen their position in the markets. Internationalization increases companies' exposure to global regulations and legitimizing agents. In this context, emerging markets multinational enterprises (EMNEs) are faced with an incredible effort to gain this legitimacy and thus successfully establish themselves in host countries.

Therefore, as we can see, there are multiple points of connection between internationalization and environmental and social aspects. Considering this, it becomes significant to analyze the relationship between the internationalization of individual MNCs and how they integrate these environmental and social aspects within their business activities. This is the main reason for this research.

In this regard, the purpose of this study is to investigate whether there is a positive relationship between internationalization and corporate sustainability (CS).

<u>Theoretical Background</u>

Literature is extensively studying the relationship between CS and internationalization. Initially, scholars seemed to converge toward a close positive correlation between the two variables, but then the linkage is getting more complicated over the years.

One of the last studies focused on multinational companies from emerging markets demonstrating that not only internationalization increases sustainability strengths – in accordance with the previous literature – but it is also the reason behind the increase of sustainability concerns. Internationalization enhances sustainability strengths because managers are motivated to adopt sustainability practices to address the issue of legitimacy in foreign markets. Simultaneously, it increases sustainability concerns because of the potential decoupling of subsidiaries from the CS strategy of the headquarters.

It follows that environmental management effectively becomes a useful instrument for achieving global legitimacy when firms have high volumes of operations in developing

countries. Hence, an increase in the internationalization of firms results in higher CS. On the other hand, the decoupling phenomenon, institutional duality, and the organizational design of the MNC may all contribute to the growth of sustainability concerns.

In brief, it is misleading to simply say that internationalization is good or bad for CS.

Research Methodology

This study was conducted by using data obtained from the Association of Southeast Asian Nations (ASEAN) emerging market multinationals. Given its growing importance globally and given the enormous impact of climate change issues on this region, ASEAN is appropriate research.

A total 294 ASEAN multinationals were identified using the Refinitiv database following certain criteria. Data was collected for a period of eight years, from 2013 to 2020. This considered time interval is particularly meaningful because of the increasing attention that climate change issues are receiving and the efforts that countries are putting in place to fight them – through international initiatives and treaties such as the 2015 Paris Agreement on climate change.

Then, considering further constraints, a sample of 36 ASEAN EMNEs was considered appropriate for the purpose of analysis. At this point, a regression was performed using CS and internationalization as dependent and independent variables, with the addition of several control variables at firm and industry level to take into consideration some factors that usually affect the dependent variables. All data were obtained using the Refinitiv database.

Table: Results of OLS regression analysis

	Dependent Variables			
Independent Variables	**ESG Score Model 1**	**Environmental Score Model 1a**	**Social Score Model 1b**	**Governance Score Model 1c**
Internationalization	4.751*** (1.422)	6.148*** (1.647)	7.599*** (1.770)	-1.166 (1.776)
Firm Size	1.764 (1.692)	1.433 (1.960)	-0.787 (2.107)	6.656** (2.114)
Profitability	-13.032 (11.458)	-5.775 (13.275)	-1.869 (14.268)	-27.961 (14.316)
Industry	5.441* (2.157)	10.604*** (2.499)	1.367 (2.686)	6.772* (2.694)
Observations (N)	288	288	288	288
R^2	0.191***	0.214***	0.155***	0.086***

*$p < 0.05$, **$p < 0.01$, ***$p < 0.001$

Results show that there is a positive relationship between the two variables, even if to a limited extent. Moreover, by breaking down the individual aspects of CS into their environmental, social and governance facets, it is possible to observe several contributions. First, environmental performance is highly correlated with internationalization. Second, even social performance is correlated to internationalization but to a lesser extent. Lastly, there is no significant relationship between internationalization and governance performance.

Discussion

As it can be discerned by the paper, literature has failed to find a unanimous opinion on how CS and internationalization mutually affect each other so far. The contribution this paper seeks to make to the literature falls into a recent trend of analyzing EMNE's international expansion and their sustainability practices.

First, results confirm the positivity of the relationship of the two variables, albeit to a limited extent.

Second, they provide an innovative approach to explore the consequences of shifting operations abroad on the individual components of the ESG framework. This allowed us to give continuity to the theoretical background of this study by observing a sharper relationship with the environmental component, a less clear but still positive relationship with the social component, and finally a null or rather negative relationship with the governance component.

Third, this study shows that there is also a significant relationship between CS and industry type. Distinguished between manufacturing and services industries and still included as a control variable, industry type allows us to support the recent trend studying the influence of internationalization on CS by analyzing only companies that are part of the same industry.

Finally, due to the significance of the positive relationship between the variables, the results allow us to reject the pollution haven hypothesis. Despite this, however, to fully address this issue would require further analysis.

Future studies can improve the results of this study by adding other relevant control variables to the used research model. Future research on the boundary conditions of the effects of internationalization on CS can also analyze when and under what circumstances the relationship between internationalization and CS strengthens or weakens. For example, these studies could focus on weak market institutions and institutional gaps in emerging countries and formal institutions in home countries.