Abstract

Purpose – This paper aims to provide multinational corporations (MNCs) with a portfolio of corporate environmental responsibility (CER) responses that help curbing the exacerbated negative environmental externalities caused by their business activities in emerging and developing economies.

Design/methodology/approach – This paper transposes the market-related concept of institutional voids to the context of CER, that is, to the context of exacerbated negative environmental externalities as result of absent, weak or incoherent institutions.

Findings – This paper proposes that the transfer of products, processes and business models from developed to emerging or developing economies often gives rise to exacerbated negative externalities because of institutional voids in environmental protection. Thus, it suggests a portfolio of CER responses – circumventing, coping and compensating – that allow MNCs to mitigate the exacerbated negative environmental externalities caused by them.

Research limitations/implications – The authors present an analytical framework for identifying and navigating environment related institutional voids, which serves as a starting point for an action research approach. In tune with recent calls for critical performativity in critical management studies, the action research approach aims at tackling the real-life problem of exacerbated negative environmental externalities caused by MNCs' activities in emerging and developing economies.

Social implications – This paper sensitizes scholars, policymakers and managers to exacerbated negative environmental externalities within the context of international business activities in emerging and developing economies. The contribution provides stakeholders with a better understanding of the causes as well as alternative responses to the problem.

Originality/value – This paper transposes the market-related concept of institutional voids and the strategic responses to dealing with them to the non-market context of CER. The authors argue that institutional voids can be seen as the absence or poor functioning of formal and informal institutions for environmental protection, resulting in exacerbated negative environmental externalities.

Keywords MNCs, Action research, Corporate environmental responsibility, Negative environmental externalities, Institutional voids, Action research, Emerging and developing economies

Paper type Conceptual paper
Introduction
Our planet is currently facing unprecedented environmental challenges. Climate change, pollution of oceans and rivers, massive air pollution and cities suffocating from smog and continuing deforestation are some of the most prominent examples. Essentially, the environmental challenges involve the pollution of water, air and soil and the destruction of bio diversity, wildlife and natural habitat and related effects on human subsistence, that is, health, food security and social peace. While many of these challenges are global in nature, their imminent effects tend to be particularly grave in emerging and developing economies.

From a critical international business (IB) perspective, this raises the question about the role and responsibility of IB and multinational corporations (MNCs) in particular in both contributing to and curbing environmental degradation. Indeed, the question about the role and responsibility of IB in environmental pollution and preservation has given rise to a growing body of research within and outside the IB academic field.

IB scholars have tended to touch upon the issue of environmental impact and responsibility of MNCs either under the broader umbrella of corporate (social) responsibility (CSR; Egri and Ralston, 2008; Pisani et al., 2017) and/or within the context of specific industries that are seen as having a particularly strong impact on the natural environment (Holtbrügge and Dögl, 2012; Shapiro et al., 2018). For instance, a range of studies that focus on MNCs in extractive industries, mining, oil and gas in particular, address the issues of environmental impact (Aragón and Rud, 2016; Aragón et al., 2015; Gedicks, 2015; Jenkins and Yakovleva, 2006; Shapiro et al., 2018). It is worthy to note, however, that only few contributions have exclusively focused on corporate environmental responsibility (CER) within the context of IB (Kolk and Pinkse, 2007, 2008; Pinkse and Kolk, 2009, 2012; Rondinelli and Berry, 2000; Holtbrügge and Dögl, 2012). Irrespective of the broader theme under which environmental impact and responsibility of MNCs are discussed, what keeps reemerging in literature reviews is that international aspects of CER have remained marginal in the field of IB.

Starting with a focused discussion of CER-related literature reviews in the field of IB, we identify a general need for advancing CER research in IB and within that general need, three specific needs including: a need for a better understanding of CER-related institutional voids (across different emerging and developing economies in particular), a need for an extended empirical focus to developing economies and non-polluting industries and a need for introducing research methods that provide actionable responses to IB-related CER challenges.

The present paper contributes to addressing these needs. Moving beyond the “pollution haven hypothesis,” we argue that it is not only the typical polluting or affecting industries that are prone to causing environmental harm. Instead, we suggest that any transfer of products, processes and business models by IB activities can cause exacerbated negative environmental externalities if institutions for environmental protection are absent, weak or incoherent in the host context. We focus on emerging and developing economies because both types of economies suffer particularly from poorly functioning environmental institutions, albeit in a different way, as will be further outlined below.

Building on the concept of institutional voids (Khanna and Palepu, 2010a, 2010b), we develop a framework that helps to better understand the CER challenges and responses for MNCs in emerging and developing economies. We understand CER responses in this context, similar to Gunningham (2009), as corporate behavior or “practices that benefit the environment (or mitigate the adverse impact of business on the environment) that go beyond those that companies are legally obliged to carry out” (Gunningham, 2009, p. 216). Finally, taking stock of recent discussions on the changing role of critical management research, that
is, of calls for critical performativity (Spicer et al., 2016), we propose an action research approach. So, rather than suggesting a range of research questions around the antecedents, phenomena and consequences of MNCs’ environmentally responsible or irresponsible behavior, we put forward a research method that aids the real-life development and implementation of CER responses.

The structure of the article is as follows. In the subsequent section, we discuss key findings of recent literature reviews on international CER. Building on the research needs identified in these reviews, we develop a framework to identify institutional voids that challenge MNCs’ CER in emerging and developing economies. As part of the framework, we also propose a portfolio of CER responses that MNCs can employ to deal with institutional voids in the area of environmental protection. Taking this analytical framework as a starting point, we suggest an action research approach to enact CER in IB scholarship. The paper concludes with a summary of our main ideas.

Recent reviews on corporate environmental responsibility and resulting research needs
In the following section, we present key research needs that have been identified by CER-related literature reviews in the field of IB. We concentrated on recent literature reviews that have focused either directly on the state of CER in IB or on CER as part of the broader concept of CSR in the IB field (Egri and Ralston, 2008; Holtbrügge and Dögl, 2012; Kolk, 2016; Kolk and van Tulder, 2010; Pisani et al., 2017). Below, we present key insights of recent reviews in relation to the following four questions:

1. Has CER as a topic been taken up in the mainstream IB literature?
2. What are the main conceptual/theoretical gaps of CER contributions in IB scholarship?
3. What are the main empirical research gaps of CER contributions in IB research?
4. What are the main gaps in regards to research methods in IB studies on CER?

A general need for advancing corporate environmental responsibility research in the international business field
Holtbrügge and Dögl’s (2012) work stands out in providing the only literature review that explicitly focuses on the state of CER research in the field of IB. Holtbrügge and Dögl (2012, p. 189) explore “the state of research on international aspects of corporate environmental responsibility (CER)”. Studying peer-reviewed mainstream management and business journals, including IB journals, the authors find that for the period of 1997 to 2011, only 0.5 per cent were somehow related to international CER. They also find that US journals and non-IB journals have a comparatively higher prevalence of CER articles. This finding echoes earlier (Egri and Ralston, 2008; Kolk and van Tulder, 2010) as well as more recent reviews (Pisani et al., 2017) on the state of CSR within the IB field. In their comprehensive literature review of a 30 year period (1985-2015) on the state of international CSR research, Pisani et al. (2017) find that CSR research is still very much underrepresented in the IB literature (in IB journals in particular). What is more, within the context of international CSR research, the CER focus is particularly weak. Pisani et al. (2017) find that little more than 7 per cent of the articles in their sample are concerned with the environmental dimension of CSR, which leads them to conclude:
Looking at the topics that have attracted fewer research efforts, the natural environment emerges as a significantly under-investigated issue within this literature. Whereas general wisdom would suggest that international CSR research devotes significant efforts to addressing the many cross-border environmentally-related issues in today’s global business context, the results of our review show that this is not the case. (Pisani et al., 2017, p. 596)

Pisani et al. (2017) call on the field of IB to pay more attention to inclusive development and to the UN’s sustainable development goals. As a key part of the latter, more focus on environmental sustainability is needed and with that, more inspiration from environmental studies related disciplines.

Specific need for understanding corporate environmental responsibility related institutional voids

While Holtbrügge and Dögl (2012) identify a strong presence of institutional- and resource-based theories in international CER research, they observe little application of international management theories and comparative institutional perspectives. The authors call especially for studies that compare institutional conditions that enable or constrain CER. The need for a better understanding of institutional conditions appears to be particularly important in the context of developing countries. Basically, all literature reviews we studied for the purpose of the present paper identify the need to leverage and develop further concepts related to institutional conditions in emerging and developing economies. There is a particular emphasis on building on the concepts of institutional voids, institutional gaps or institutional failure to better understand CSR and CER challenges and practices in emerging and developing economies (Doh and Lucea, 2013; Holtbrügge and Dögl, 2012; Jamali and Karam, 2018; Kolk, 2016; Kolk and Lenfant, 2015; Kolk and van Tulder, 2010; Pinkse and Kolk, 2012; Pisani et al., 2017).

A specific need for a focus on developing countries and non-polluting industries

Holtbrügge and Dögl (2012) find that the majority of CER research in IB is targeting developed countries, Europe and North America in particular. While 7 per cent of the articles in their sample focused on China, other Asian countries as well as Africa and Latin America were largely ignored (Holtbrügge and Dögl, 2012). This resonates with earlier and recent reviews on international CSR that included CER. Egri and Ralston (2008) and Kolk and Van Tulder (2010) stress the need for more CSR and CER research in emerging and developing countries. Egri and Ralston (2008) note the following:

[I]t is particularly troubling that there has been relatively little on-the-ground CR research in countries where the need for corporate responsibility is most pressing due to greater poverty, environmental degradation and institutional governance issues (e.g. Africa, Central/Eastern Europe, Central/South Asia, Latin America and the Middle East). (Egri and Ralston, 2008, p. 7)

Pisani et al. (2017) also emphasize that CSR and CER research in IB is far from global in its coverage. Looking at home and host countries separately, they find a dominance of developed home countries (86 per cent), with the USA being most present in the sample. With regard to host countries, the picture is more differentiated, with developed and emerging countries finding about the same amount of coverage. However, here too, there is a strong imbalance of countries covered. While emerging (58.7 per cent) and developed economies (33.6 per cent) attract the majority of research in terms of host countries, developing economies are only weakly represented (7.7 per cent). The overall finding is that international CSR and CER research has neglected regions and continents such as Central and Eastern Europe and Africa, both as home or host countries (Kolk and van Tulder, 2010).
We also note that almost all international CSR and CER research focusing on developing countries was published in non-IB journals.

Apart from the need for a broader geographical focus of empirical studies, reviews also call for a move from single to multi-country studies (Holtbrügge and Dögl, 2012; Pisani et al., 2017). Moreover, Holtbrügge and Dögl (2012) advocate for a move beyond the current empirical focus of heavily polluting (chemicals, oil and gas), environmentally affecting industries (mining and forestry) or globally affecting industries (automotive and electronics).

Specific need for research methods that deliver actionable corporate environmental responsibility responses

Analyzing international CER contributions in regards to the research methods used, Holtbrügge and Dögl (2012) find a dominance of empirical studies in comparison to theoretical studies. Among the empirical studies, they find the majority to be quantitative studies. While Egri and Ralston (2008) see in the context of international CSR a similar bias toward quantitative empirical papers, Pisani et al. (2017) identify a more balanced variation of methods. However, none of the reviews discussed for the purpose of our paper identify or suggest research methods that deliver actionable CER responses (Egri and Ralston, 2008; Holtbrügge and Dögl, 2012; Kolk, 2016; Kolk and van Tulder, 2010; Pisani et al., 2017). What is more, while some of the literature reviews do provide managerial and policy implications, these tend to be rather abstract and with little consideration for their actual implementation or application to real-life CER challenges (Egri and Ralston, 2008; Holtbrügge and Dögl, 2012; Pisani et al., 2017). Put another way, the research we reviewed showed only modest signs of moving beyond the realm of the intra-academic discourse.

From our focused discussion of CER-related literature reviews, we identify three specific research needs for advancing CER research in IB:

- a need for a better understanding of CER-related institutional voids (across different emerging and developing economies in particular);
- a need for an extended empirical focus to developing economies and non-polluting industries in IB-related CER research; and
- a need for introducing research methods that provide actionable responses to international CER challenges.

The framework and the action research approach presented below aim at addressing those research needs.

Framework for understanding and addressing negative environmental externalities

Focusing on the environmental impact of IB activities in emerging and developing economies, our framework aims at better understanding the causes of and remedies to exacerbated negative environmental externalities through the lens of institutional voids. The framework development proceeds in five steps. The first step involves linking exacerbated negative environmental externalities to absent, weak or incoherent institutions. The second and third steps entail explaining the concept of market-related institutional voids and translating them to the non-market context of CER. The fourth and fifth steps involve elaborating on market-related strategic responses to institutional voids and applying them to the context of CER.
Weak institutions and exacerbated negative environmental externalities

Much of the negative environmental effects of IB activities have been discussed under the heading of the pollution haven hypothesis (Copeland and Taylor, 1994; Dam and Scholtens, 2012; Eskeland and Harrison, 2003). This hypothesis states that MNCs deliberately shift environmentally polluting activities in their value chains to those countries that have lenient environmental legislation and/or law enforcement, that is, typically emerging and developing economies (Taylor, 2004). We argue that while there is some evidence to support the “pollution haven hypothesis” (which tends to focus on particular polluting or affecting industries or value chain activities), there is another type of negative environmental impact of IB activities that is not so closely related to deliberate pollution. So, rather than being based on the deliberate exploitation of lax environmental regimes in emerging or developing economies by MNCs, we suggest this type of pollution to be more closely related to MNCs’ ignorance or negligence in various industries. Specifically, we refer here to the ignorance of MNCs about the exacerbated environmental impact that results from transferring their products, processes or entire business models from developed to emerging or developing economies.

Our argument builds on the notion of negative externalities of business activities. By negative externalities, we mean the social and environmental costs that are imposed by a firm on others, third parties, as a result of an economic transaction outside the market place. In an economic transaction, producers and consumers are understood as the first and second parties. The third parties are individuals, organizations, property owners or resources that are indirectly affected. Typical examples of negative externalities are waste that arises from consumption or carbon emissions that result from production in factories (Samuleson and Nordhaus, 1992).

Negative externalities of business activities are certainly not limited to emerging and developing economies. In developed countries, for instance, we currently witness vivid debates about the environmental and health effects of pesticides and diesel engine cars. However, while negative externalities exist in developed countries as well, we argue that they will be more pronounced in emerging and developing economies because of absent, weak or incoherent institutions prevalent in these types of economies. The argument is based on the contention that products, business processes or business models in developed countries have often evolved over a long period, which allowed the gradual coevolution of institutions that prevent or mitigate their negative externalities. Relatedly, developed countries tend to have institutional systems, including political and legal systems, which give third parties affected by negative externalities better opportunities to address their impact. This implies that when products, business processes or models are transferred to emerging and developing economies without the institutions of developed countries, the impact of negative externalities will be particularly harsh (Hettige et al., 1996; Rodrigues, 2013). A brief illustration of the argument is the transfer and production of fast moving consumer goods and the operation of motor vehicles in emerging and developing economies. While air pollution through motor vehicles and packing waste are environmental challenges to all societies, their negative externalities are particularly stark in economies where pollution prevention and control agencies are absent or poorly institutionalized.

Concept of market-related institutional voids

The concept of institutional voids has recently seen growing attention in the IB field (Becker-Ritterspach et al., 2017; Doh et al., 2017). At its core the concept seeks to capture the market-related challenges that businesses face when operating in emerging and developing economies. The concept was originally introduced by Khanna and Palepu (1997) who
suggested that the key challenge of operating in emerging and developing economies lies in the absence or weakness of market intermediaries and institutions that bring together buyers and sellers as the main parties of market transaction. At its heart the concept revolves around poor market functioning or market failure caused by institutional voids, that is, “absence of specialized intermediaries, regulatory systems and contract-enforcing mechanisms” (Khanna and Palepu, 2006, p. 62). Khanna and Palepu (2010a, 2010b) list, for instance, credibility enhancers (e.g. ISO certifications), information analyzers and advisors (e.g. consumer reports), aggregators and distributors (e.g. mass retailers), transaction facilitators (e.g. credit card issuers), adjudicators and regulators (e.g. courts) as key market facilitating institutions. While Khanna and Palepu (2006, 2010a, 2010b) primarily focused on formal institutions, recent work on institutional voids has increasingly recognized the importance of informal institutions in either counteracting or aggravating formal institutional voids (Doh et al., 2017; Mair et al., 2012). We share the contention of recent work that a comprehensive analysis of institutional voids needs to entail a consideration of both formal and informal institutions.

Applying the concept of institutional voids to the corporate environmental responsibility context

While the concept of institutional voids has been widely acknowledged as an analytical framework to identify and overcome poor market functioning in emerging and developing economies, it has seen little application to the question of how business activities can become more socially and environmentally sustainable in emerging and developing economies (see Kolk and Lefant, 2015; and Rodrigues, 2013 as exceptions). The main reason for this is that the focus of current applications of the voids concept has been on institutions that support (or fail to support) market transaction, that is, how sellers and buyers as first and second parties come together. At the same time, the market transaction focus has neglected the non-market effects of economic transactions. Especially, the absence or poor functioning of institutions that curb the negative externalities imposed on third parties by market transactions have found only little consideration. Interestingly, even work that has emphasized the importance of informal institutions in emerging markets focused on institutions enabling or constraining market transaction (Doh et al., 2017; Parmigiani and Rivera-Santos, 2015).

We argue that one can better understand the exacerbated negative environmental externalities related to the transfer of products, processes or entire business models from developed to emerging and developing economies if one leverages the concept of institutional voids. Specifically, we transpose the concept of institutional voids and their role in causing market failure to the context of CER and their role in exacerbating negative externalities of market transactions. Applying the concept of institutional voids to the environmental context, we argue that institutional voids can also be seen as the absence or poor functioning of formal and informal institutions that cushion or reduce the negative environmental externalities of economic transactions (Rodrigues, 2013). Paralleling the definition of voids in the market context, we define institutional voids in the non-market context of negative environmental externalities as the absence or weakness and incoherence of formal and informal institutions geared toward environmental protection. Formal institutions for environmental protection typically comprise environmental legislation frameworks, agencies overseeing and coordinating the environmental governance of a jurisdiction, agencies providing public information on environmental performance and promoting civil society engagement in environmental protection, agencies monitoring the compliance and ensuring the implementation and enforcement of environmental legislation, agencies and management systems implementing pollution prevention and control (Esty
and Porter, 2002; Kumar et al., 2019). Informal institutions comprise essentially norms and values with regard to the importance of environmental protection. Both formal and informal institutions cut across different societal spheres including the government, the civil society and the business sector. For instance, monitoring the compliance of environmental laws may not be solely in the hands of government agencies as environmental organizations or business organizations may also specialize in this area. Similarly, environmental norms and values can permeate different societal spheres ranging from ordinary citizens, to representatives of the government, the judicial system or business and media. Below, we present an overview of typical formal and informal institutions geared toward environmental protection and summarize them in Table I.

It is important to note that the presence and functioning of formal and informal institutions of environmental protection is related to the presence and functioning of broader societal institutions (Kumar et al., 2019). These include basic human rights (free expression, free association, freedom of assembly, freedom of information and public participation in decision making, right to a healthy environment, right to nondiscrimination and rights of marginalized populations), nature of the political system (functioning democracy and

<table>
<thead>
<tr>
<th>Institutions</th>
<th>Example</th>
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<tbody>
<tr>
<td>Constitutional environment-related stipulations</td>
<td>Stipulation of environmental protection or the right to a healthy environment in constitutions</td>
</tr>
<tr>
<td>Environmental protection legislation</td>
<td>Environmental laws, regulations, acts and provisions (e.g. waste management laws, laws requiring environmental assessments for projects that impact the environment and laws guaranteeing access to environmental information)</td>
</tr>
<tr>
<td>Agencies overseeing and coordinating the environmental governance</td>
<td>Ministries or cabinet level bodies dedicated to the development of environmental policy, programs and legislation</td>
</tr>
<tr>
<td>Agencies providing public information on environmental performance and promoting civil society engagement in environmental protection</td>
<td>Organizations disseminating information on environmental decision making and performance (e.g. state of the environment reports) Educational organizations promoting environmental responsibility and protection (e.g. environment oriented curricula and school initiatives)</td>
</tr>
<tr>
<td>Agencies monitoring the compliance and ensuring the enforcement of environmental legislation</td>
<td>Environmental organizations (environmental NGOs and research centers) Organizations specializing in environmental certification, testing and auditing (e.g. ISO certification audits by a safety council) Specialized environmental courts and tribunals</td>
</tr>
<tr>
<td>Agencies and management systems implementing pollution prevention and control</td>
<td>Waste and water management services (e.g. communal wastewater treatment plants) Application of environment management systems by a country’s firms (e.g. ISO 14000/14001 certification) Emergency services specializing in pollution control (e.g. spill response units)</td>
</tr>
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Table I. Formal and informal institutions for environmental protection

| Norms and values with regard to environmental protection | Attitudes toward environmental violations in different societal spheres Attitudes about governmental, corporate and civic responsibilities in environmental protection |

Source: Informed by Kumar et al. (2019)
separation of power), nature of the legal (rule of law and law enforcement) and judicial system (accessible and transparent), freedom of press and media, nature of the education system (access to and level of education) as well as wider cultural norms and values.

While the improvement of institutions for environmental protection is a global challenge (Kumar et al., 2019), there is evidence to suggest that emerging and developing economies suffer particularly from a void in the implementation and enforcement of environmental laws (Kumar et al., 2019; Rodrigues, 2013; Fainshmidt et al., 2018; Jamali and Karam, 2018). Rodrigues (2013, p. 38) argues that in emerging markets the actual institutional voids are often less the absence of formal rules (e.g. laws and regulations) but rather the “gaps between rules and their purpose and the effectiveness of their implementation”. One key reason for these gaps is the focus on economic development in emerging economies (Rodrigues, 2013). Kumar et al. (2019) make a similar argument for the context of developing economies:

Many developing countries prioritize macroeconomic development when allocating government funds and setting priorities. This results in environment ministries that are under resourced and politically weak in comparison to ministries for economic and natural resource development. While international technical and financial aid has helped scores of countries to develop environmental framework laws, neither domestic budgeting nor international aid has been sufficient to create strong environmental agencies, adequately build capacity for agency staff and national judges in environmental law, or create enduring education about and enforcement of the laws. As a result, many of these laws have yet to take root across society, and in most instances, there is no culture of environmental compliance. (Kumar et al., 2019, p. 23)

We have treated so far emerging and developing economies as sharing similar problems in terms of institutional voids. While we indeed hold that both types of economies suffer from institutional voids, particularly with regard to implementing and enforcing environmental legislation, we recognize that there may be some important differences. By definition, emerging and developing economies differ with regard to their economic and institutional conditions (Marquis and Raynard, 2015). In contrast to developing economies, emerging economies are rapid economic growth environments and typically engage in institutional reform and regulatory development. These economic and institutional differences are not without consequence for the nature of institutional voids and how voids relate to negative environmental externalities. For instance, while emerging economies may suffer less from absent institutions of environmental protection than developing economies, they may suffer more from the condition that their institutions are still too weak and incoherent to keep up with the environmental effects of rapid economic growth (Rodrigues, 2013). The effect might be that although emerging economies might have more developed institutions than developing economies, they still suffer more severely from exacerbated negative environmental externalities because of their rapid growth.

**Strategic responses to market-related institutional voids**

Scholars working with the concept of institutional voids have not only provided analytical tools to identify institutional voids (Khanna and Palepu, 2010a, 2010b), but they have also presented a range of alternative responses of how domestic and international firms can cope with institutional voids that constrain market transactions (Doh et al., 2017; Kingsley and Graham, 2017; Khanna and Palepu, 2010a, 2010b, 2016; Pinkham and Peng, 2017). Khanna and Palepu (2010a, 2010b) suggest, for instance, four essential strategic responses that MNCs can engage in when facing institutional voids in the market context. These are:

1. replicate or adapt;
2. compete alone or collaborate;
accept or change the market context; and
(4) enter, wait or exit?

The first response refers to the question as to whether business models, products or organizational forms can be replicated or need to be adapted to the institutional voids of an emerging market or developing country. The second issue relates to the question whether or not MNCs should collaborate in the form of joint ventures or with local partnerships to acquire the capabilities to cope with institutional voids. The third aspect is associated with the question whether the host market context is accepted as it is or whether the MNC engages in activities to fill the institutional voids. The latter may also involve engaging in entrepreneurial activities that see the voids as business opportunities. The last response refers to the question whether MNCs should enter or stay in a market despite of institutional voids or whether it is sensible to exit the market and seek other opportunities. Specifically, while firms may enter the market despite the institutional voids, they may as well wait or refrain from entering a market altogether.

Building on these options, more recent work has suggested further strategies. In a special issue on IB responses to institutional voids, Doh et al. (2017) discuss institutional borrowing, internal substitution, internalization and signaling as alternative responses. While institutional borrowing relates to circumventing institutional voids by drawing on the institutions of another country, internalization refers to the internalization of absent or poorly functioning market institutions. Internal substitution denotes using the firm’s own local private information to bridge voids in local public market information. Finally, signaling is associated with conveying credibility to the environment, for instance through CSR activities, with the goal to reduce transaction cost and gaining better resource or market access.

Synthesizing the above literature, strategic responses to institutional voids appear to be tied to the following core questions:

- whether institutional voids matter to the firm; and
- whether they can be circumvented if they do matter, and how to cope with voids if they cannot be circumvented?

In the scenario where institutional voids do not matter, the firm can simply replicate its business models, products or organizational forms. However, if they do matter, a second crucial question comes into play, namely, how to deal with institutional voids if they cannot be avoided? Here, the literature (Doh et al., 2017; Khanna and Palepu, 2010a, 2010b) suggests two options: Circumventing or coping with the void. Circumventing the void can take three forms: non-exposure to the voids through non-entry, waiting or exit of a market; adapting the business model, product or organizational form; or borrowing. The latter entails drawing on another country’s institutions so that the void in the host context does not matter anymore. If the void cannot be circumvented, coping with the void involves again two principal options: internalization or internal substitution of the void. This is associated with drawing on or building internal capabilities within the MNC to compensate for the void. The second coping option involves filling the void, which can be achieved by changing the local institutional context through entrepreneurial activities (see Table II for a summary of responses to market-related institutional voids). Importantly, both coping options can be based on either an individual firm’s initiative or in collaborative formats with other firms or partners.
Applying strategic responses to institutional voids in the corporate environmental responsibility context

In the following paragraphs, we address the question to what extent the above strategic responses to institutional voids are applicable to the context of CER. The above strategic responses have been discussed to address problems of absent or poor market functioning, but do these strategies serve to address problems of absent or poor functioning of institutions in the non-market context of environmental protection? And even if they do, what incentive or motivation would MNCs have to engage in them given that they involve third parties and not the bottom line of business? While we address both questions, we focus particularly on the first because this question has received only little attention in IB-related CER research. Below, we suggest a portfolio of MNC responses to institutional voids in the CER context. These responses are connected to a set of questions in relation to the relevance of institutional voids, to options of circumventing or coping with them as well as to options of compensating exacerbated negative externalities caused by institutional voids. We depict these key issues in Table III.

<table>
<thead>
<tr>
<th>Voids-related questions</th>
<th>Strategic response</th>
</tr>
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</table>
| Do institutional voids matter? | Replication if voids do not matter  
Circumventing or coping if voids do matter |
| How to circumvent institutional voids that matter? | Non-entry or exit of a market  
Adapting business models, products or organizational form  
Institutional borrowing |
| How to cope with institutional voids that matter? | Internalization/substitution of institutional voids  
Filling institutional voids |

Sources: Synthesized from Doh et al. (2017) and Khanna and Palepu (2010a, 2010b)

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<table>
<thead>
<tr>
<th>Voids related questions</th>
<th>CER responses</th>
</tr>
</thead>
</table>
| Do institutional voids matter? | Replication if voids do not matter  
Four possible responses if voids do matter:  
Ignorance or denial  
Circumventing  
Coping  
Compensation |
| How to circumvent institutional voids that matter? | Non-introduction or withdrawal  
Adaptation  
Institutional borrowing |
| How to cope with institutional voids that matter? | Internalization or internal substitution  
Filling institutional voids |
| How to compensate for exacerbated negative externalities caused by institutional voids? | Related compensation  
Unrelated compensation  
Symbolic compensation |

Source: Compiled by authors
Do institutional voids matter?

Transposing the strategic responses to institutional voids from a market to a non-market context of CER poses the question: Do the institutional voids matter for an MNC’s CER? Put more elaborately, do the institutional voids in emerging or developing economies exacerbate the negative externalities when MNCs transfer product, process or business model without modification?

The first scenario is a situation where a product, business process or model has no negative environmental externalities in the first place. It may also be a situation where the local voids do not exacerbate negative externalities in any way. In this scenario, a simple replication or transfer of a product, process or business model is the most obvious CER response. The second scenario entails a situation where institutional voids are likely to produce exacerbated negative externalities. Under such circumstances, a wider range of CER responses come into play. A first possible response is the MNC’s ignorance or denial of the exacerbated negative externalities. This may be accompanied by what was earlier discussed as signaling good corporate citizenship (El Ghoul et al., 2017; Marano et al., 2017) or what is often referred to as greenwashing (Delmas and Burbano, 2011; Jamali and Karam, 2018). Such a response may still be widely feasible, precisely because institutions are weak and because negative externalities (e.g. packaging waste, water and air pollution) are often aggregate effects of many business actors and for that reason difficult to trace or attribute to any specific firm.

However, MNCs might be increasingly unable and/or unwilling to ignore or deny the negative environmental externalities that are caused by their international activities (Crouch, 2006; Doh and Lucea, 2013). Reasons for this might include responding to stakeholder pressures and expectations (e.g. global or local consumers, media and NGOs), fears of reputational damage or conversely opportunity of reputational gains, opportunities for cost saving, product differentiation, innovation and competitive advantage or simply having to comply with an MNCs global CSR codes that have the legislation and regulations of a developed country as a reference point (El Ghoul et al., 2017; Görg et al., 2017; Gunningham, 2009; Holtbrügge and Dögl, 2012; Marano et al., 2017; Wahba, 2008).

Under these circumstances, three principle CER responses present themselves: circumventing, coping or compensating. Circumventing entails CER responses that render the local institutional voids irrelevant. Coping is associated with establishing institutions to fill the void or alternatively seeking functional equivalents internally. Compensating implies CER responses that seek to compensate for the exacerbated negative environmental externalities caused. We discuss these options in more detail below and give illustrative examples.

How to circumvent institutional voids that matter?

Circumventing institutional voids as a CER response involves three alternatives: non-exposure to the voids through non-entry or withdrawal; adapting products, processes and business models; or borrowing another country’s institutions so that host context voids do not matter.

The first alternative involves non-introduction or withdrawal. Non-introduction implies refraining from introducing a certain product, process or business model into the emerging or developing economy. An example would be an MNC’s assessment that the potential negative environmental externalities of a certain product are so uncontrollably or unpredictably high in the face of absent, weak or incoherent institutions in the host context that an introduction becomes too risky. Withdrawal, in turn, implies removing a certain product, business process or model from the market that has already been introduced. This may be the case when an MNC realizes that institutional voids contribute to unacceptably
high levels of negative environmental externalities. Either way, non-introduction or withdrawal, imply that the options of circumventing, coping or compensating are not considered by the MNC, be it for cost, feasibility or other reasons.

The second alternative for avoiding exacerbated negative externalities is the introduction of adaptations to products, processes and business models that imply less or no negative externalities altogether. Examples are Carrefour Egypt’s initiative to introduce biodegradable plastic bags in their supermarkets (Mohamed, 2015) and Unilever’s introduction of a detergent that saves rinsing water in India (Unilever, 2017). Such adaptation approaches render the presence of institutions that mitigate negative environmental externality less important or in some cases even unnecessary.

The third alternative involves institutional borrowing. This response implies drawing on another country’s institutions (Doh et al., 2017) to prevent or mitigate exacerbated negative externalities. Developed country MNCs may rely in emerging and developing economies on standards and processes developed and defined by their home country or a third country’s institutions. Relatedly, they may also work with home country or third country agencies for enforcing, monitoring, testing or certifying the environmental performance of their products, processes and business models. A case in point is Bonfiglioli India, the subsidiary of an Italian MNC producing transmissions in India. Bonfiglioli India works with TÜV Nord (a German safety monitoring agency) in India to obtain the environmental management system certification ISO 14001:2004 (Bonfiglioli, 2014).

**How to cope with institutional voids that matter?**

Coping with institutional void comprises two principal options: internalization/internal substitution or institution building. Importantly, both coping options can be based on either an individual firm’s initiative or in collaborative formats with other firms or partners. The first coping option is *internalization or internal substitution* of the void. This requires drawing on or building internal capabilities within the firm to compensate for the void. A firm may, for instance, internalize the waste management or pollution control that is taken care of by external institutions in developed countries. Unilever’s solid waste management projects in India and its waste water treatment initiatives in the Philippines are examples for internal responses to voids. In India, Unilever has entered into partnerships with NGOs and specialist agencies to develop pilot projects for waste collection, waste segregation and energy recovery from waste (Unilever, 2017). Unilever Philippines has opened its own on-site domestic water treatment plant to reduce the pollution of the Pasig River. The plant ensures that Unilever’s Manila Factory operations do not pollute the river (Unilever, 2003). Such internal responses to voids may either build on existing internal knowledge and experience from within the multinational network (internal substitution) or entail the development of new customized solution for a specific local context (internalization).

The second cooping option encompasses *filling the void*. This can be accomplished by changing the local institutional context through entrepreneurial activities. In this scenario, MNCs engage in building institutions in the host context that prevent or mitigate negative externalities. Such institutional entrepreneurship may target informal or formal institutions. It could range from raising environmental awareness to advocating environmental legislation and standards with host governments or within local industry and its associations. It could implicate attracting or teaming up with CER-related agencies and organizations from the home or a third country. Other examples would be sponsoring the establishment of private or public agencies that professionalize in the field of enforcing, monitoring, testing and certifying environmental performance or in the field of waste and pollution management. Such institutional entrepreneurship could take the form of non-profit
or for profit initiatives as well as individual MNCs or partnering approaches. The latter might come with an array of entrepreneurial interactions with local communities and NGOs, local government actors and agencies as well as other firms in the host context. Coca-Cola’s initiative in Mexico to build better waste management services is a case in point:

In 2002, Coca-Cola bottlers in Mexico joined the country’s plastics industry, and leaders from other industries, to create Ecology and Corporate Commitment (ECOCE), a nonprofit organization dedicated to encouraging a culture of recycling, and funded the creation of two food-grade PET plastic recycling facilities. These investments are paying off. In 2016, Mexico recycled 57 per cent of the PET plastic it produced (up from 9 per cent in 2002), making it the leading country globally for PET recycling. (Coca-Cola, 2018)

Finally, MNCs may be aware of the exacerbated negative externalities caused by them but unwilling or unable to address them through circumventing or coping. In this case, MNCs may engage in compensatory action.

**How to compensate for exacerbated negative externalities caused by institutional voids?**
Compensation implies recompensing for a negative environmental externality caused. Compensatory action may be related or unrelated to the negative externality caused. An example of a directly related compensatory action would be the implementation of Coca-Cola’s “world without waste” mission announced in 2018. The mission aims at collecting and recycling a can/bottle for every one sold by 2030 (Coca-Cola, 2018). Another example of a related compensation is Mercedes Benz India’s initiative of planting 50,000 trees (Mercedes Benz India, 2018). Mercedes Benz India’s Managing Director and CEO is quoted as saying in this context:

We have planted 50,000 trees that will offset the carbon footprint of our production process. The plantation will bring significant changes in the lives of the villagers who will not only find a livelihood but will also benefit from the increased vegetation in the area. This initiative will further create awareness about the ecological benefits of afforestation, thus contributing to environmental sustenance. (Patheja, 2017)

Examples for unrelated compensation might be large donations to international environmental organizations that tackle environmental problems other than those caused by an MNC.

It should finally be noted that many MNC initiatives marketed as compensatory action may not qualify as such owing to their modest scale and/or sustainability. For instance, while Mercedes Benz India’s tree planting initiatives may qualify as a kind of compensatory action, it could be questioned if Coca Cola’s “beach clean-ups” in India (Coca-Cola India, 2018) do as well. Hence, many initiatives labeled as compensatory probably fall more into the category of symbolic rather than a real compensation.

**The utility of action research for addressing corporate environmental responsibility in international business scholarship**
The emerging body of CER literature within the IB field is an important development toward better understanding the antecedents, phenomena and consequences of environmentally responsible and irresponsible behavior of MNCs. At the same time, however, this literature has remained so far largely non-performative. By non-performativity we mean, similar to recent discussions in Critical Management Studies (Spicer et al., 2009, 2016), the absence of change-oriented intervention and real-world impact. We side with Spicer et al. (2009) who advocate for a paradigmatic shift toward critical performativity (CP) in Critical Management Studies. They define critical CP as the “active and subversive intervention into managerial...
discourses and practices" (Spicer et al., 2009, p. 226) and suggest “focusing on issues of public importance; engaging with non-academic groups using dialectical reasoning; scaling up insights through movement building; and propagating deliberation”. The latter refers to allowing the articulation of “differing positions, ideas and evaluations” as well as the formulation of “creative alternatives”.

Taking these CP tenets seriously, we suggest an action research approach for the development of actionable CER responses. Action research goes back to Lewin’s (1946) work and has found application in a wide range of disciplines including management research (Eden and Huxham, 1996). While action research approaches may vary with regard to their underlying epistemologies, theories and/or research methods, there are a few commonalities that are shared by action research approaches. Most action researchers would probably subscribe to the following key elements (Denscombe, 2010; Dick, 2015): Action research is practical in nature, aiming at improving a specific situation or solving real-world problems. It aims at addressing the problem through change action and is based on participation involving practitioners or stakeholders as active participants in the research process. It is also based on a cyclical or spiral research process, integrating action and critical reflection or at least alternating between the action and the reflection (Dick, 2015). In summary, action research is generally seen as an interactive and cyclical inquiry process in which collaborative empirical analysis and research interacts directly with problem solving actions (Greenwood and Levin, 2007; Reason and Bradbury, 2006).

The defining elements of action research – problem-, change- and practitioner-orientation as well as recursive critical reflection – can be easily brought into alignment with the CP tenets. Action research is predestined to engage in real-life problems of public importance. The approach rests on the close involvement and participation of non-academics in the research process. And, in doing so, it not only opens a space for dialectical deliberation and development of creative alternatives, but also holds the potential of movement and commitment building by implementing solutions that have been derived from the inclusive democratic engagement with different stakeholders and interests.

**Applying the action research approach to the corporate environmental responsibility context**

In the following paragraphs, we apply the action research approach to our research problem in the CER context. We will do so by defining a real world problem to be addressed, the goals and possible participants of change action as well as the key questions, tasks and potential outcomes of the different research phases.

**Real-world problem.** The exacerbated negative environmental externalities that are caused by MNCs in emerging and developing economies are of a considerable public importance not only for the countries and communities affected, but for the world at large. The public importance stems from the harmful effects to the natural environment and the related effects on human subsistence.

**Goal of change action.** The goal of the change action is to identify and implement CER responses that contribute to mitigating the exacerbated negative environmental externalities caused by MNCs in emerging and developing economies. We acknowledge that action research calls for a multitude of interventions. We also recognize that these interventions will have to be context specific and focused (Greenwood and Levin, 2007). By context specificity and focus, we mean that interventions can only be meaningful if they are geared toward the particularities of a specific problem (e.g. type of negative externality), of a particular issue (e.g. type of product, process or business model) and entity (e.g. type of MNC) causing the problem as well as of a specific locality within which the problem occurs (e.g. type of country or type of institutional setting). Accordingly, the identification of
institutional voids that are responsible for exacerbated negative externalities and the development of CER responses will be highly context specific. The ultimate goal of change action is the delivery of tangible improvements to the problems of a specific context.

Participants. Participation is a defining element in action research, often combined with notions of democratic inclusiveness (Greenwood and Levin, 2007). Participation serves a range of purposes including “empowerment of those involved a commitment to equity, information sharing among the various stakeholders, and building commitment to the planned actions” (Dick, 2015, p. 7). In our research context of developing actionable CER responses, we see the participation of MNCs as a since qua non. MNCs need to participate because they cause the problem in large part. At the same time, they can become crucial partners in addressing the problem as they have the power, resources, know-how and increasingly a business interest to facilitate the change action (Doh and Lucea, 2013; Jamali and Karam, 2018). Living up to a realization of participation implies a consideration for the interests and specific cognitive and behavioral constraints of the different participants (Perrot, 2017).

In the case of MNCs, this may entail that CER responses have to have some tangible benefit for the firm (cost neutrality or cutting opportunities, new business opportunities, improved corporate image, etc.). Apart from MNC involvement, there is certainly a need for a participation of other stakeholders (e.g. NGOs, government agencies and interest groups). Potential participants could be actors affected by the problem or void (Kolk and Lenfant, 2015), actors who can contribute to its solution (Battaglia et al., 2015), actors who can contribute to its solution as well as actors who are potentially affected by the solutions. For instance, garbage collection can be a major source of household income in many developing contexts. Hence, CER solutions that address waste pollution would call for the involvement of garbage collectors as major stakeholders. Lastly, researchers, too, are key participants in action research. They may take on different and changing roles in the research process. Such roles may range from being context specific experts, to (self-) reflective scientists, process facilitators, change agents or knowledge brokers (Wittmayer and Schäpke, 2014). Clearly, the exact constellation of actors will vary by the specific context. For instance, while local government might be a crucial partner on some issues and in some contexts, they may be excluded for not being very helpful in others.

Phases in the research process. Lewin (1946, p. 38) envisioned action research as “a circle of planning, action, and fact-finding about the result of the action” (see also Dick, 2015). Action research is often envisioned as a multi-phase process that involves some or all of the following phases: diagnosing and preparation, action planning, action taking and action observing and evaluating (Battaglia et al., 2015; Denscombe, 2010; Dick, 2015; McNiff, 2013; Stringer, 2014). Although these phases rarely follow a strict sequence, given their intertwined and recursive nature (Dick, 2015), we shall treat them for analytical purposes as distinct phases. Below, we refer to Battaglia et al.’s (2015) clearly defined phases of diagnosing, action planning, action taking and evaluating and specifying learning and apply them to our research context.

Questions, tasks and outcomes in the different research phases
Diagnosing involves the “identification of the problematic situation” (Battaglia et al., 2015, p. 56). This phase necessitates the interpretation of a complex problem in a holistic manner (Battaglia et al., 2015). The main task in this phase is validating the problem as relevant and understanding the contextual conditions that bring it about. In simple terms, this phase implies asking: What is the problem and what causes the problem? In our context of CER, we identified the exacerbated negative externalities caused by MNCs as the problem and related these problems to institutional voids in emerging and developing economies. At the
end of this initial phase stands the development of a first theoretical framework (Battaglia et al., 2015). In the preceding section, we developed such a framework on alternative CER responses.

*Action planning* involves a “specification of the actions to adopt to solve or relieve the problematic situation” (Battaglia et al., 2015, p. 56). The initially developed framework serves in this phase as a guide for the action to be taken. Designing change action requires first and foremost a clearly circumscribed context and focus of action. In the context of CER, this involves deciding on addressing the negative externalities of a specific problem, issue, entity and locality. Once the action focus is clear, this phase aims at better understanding the problem by collecting and analyzing data and information on exacerbated negative externalities of specific product groups, business processes or models of a specific firm and linking them to institutional voids prevalent in a specific locality. However, moving beyond mere problem analysis, the main task of this phase is the development of actionable CER responses that serve to reduce specific negative externalities. Developing these responses may be informed not only by the theoretical framework suggested earlier but also by reviewing best CER practices from other contexts. The task of developing alternative CER responses is connected to a range of key questions including: What are the boundary conditions for CER action development? What CER responses are viable and sustainable given the boundary conditions of a specific context? What would be the desired outcomes of alternative actionable CER responses? And how can their environmental performance be assessed? This phase also defines potential formats of CER action development and application. In our case, we envision multi-stakeholder workshops and pilot projects as the key formats of action design and application. The outcome of this phase would be the development of specific CER responses for a specific context, including steps and formats of application as well as tools to monitor their implementation and performance.

*Action taking* involves the “implementation of the devised actions, causing change to occur and, in principle, leading to an improved situation” (Battaglia et al., 2015, p. 56). The main task in this phase is to follow through and monitor the CER response implementation. While implementation may go well, it may also be stalled for a number of reasons. Reasons may be fading interest of participants, unintended consequences, unrecognized boundary conditions or ineffectiveness of the action. Main questions of this phase are therefore: What are the facilitators and obstacles to CER response implementation? How can obstacles be overcome? How can the CER responses be adapted or redesigned to be implemented? The main outcome of this phase is an improved situation finding expression in tangible reduction negative environmental externalities. For instance, in the CER area of plastic waste reduction such a tangible improvement would be a measurable reduction of a firm’s annual consumption of plastics.

*Evaluating* requires the assessment of the outcomes of the change action. This involves “a critical analysis of the results in light of the theoretical framework and of the practical effects that were achieved” (Battaglia et al., 2015, p. 56). The main task of this phase is evaluating the results of the change action against the expected outcomes. Where results and expected outcomes diverge, the task is to identify reasons for underperformance. These reasons should ideally feed into an improved CER action development. Key questions of this phase are, therefore, as follows:

- Did the change CER action produce the results expected?
- Why did the CER change action not produce the expected results?
- Can the CER change action be modified to produce the expected results?
When parallel CER actions are taken to address the same problem, this phase would require the comparison of alternative CER responses in terms of performance, advantages and disadvantages. The outcome of this phase would be a clearer understanding of the applicability, contextual facilitators and performance of alternative CER responses.

Specifying learning comprises the “identification and description of findings (lessons learned)” (Battaglia et al., 2015, p. 56). We see two main tasks in this phase: considering the applicability of solutions in other contexts (Greenwood and Levin, 2007) and generalizing the learnings to broader theory (Eden and Huxham, 1996). The first task is related to questions such as: What are the specific contextual conditions that made the CER responses work (or fail) in a given context? How useful are the CER responses for other contexts of application? The second task is related to broader generalizations and mainly involves asking: What adjustments to the initial CER response frameworks are needed? While we share the contention that “[l]ocal relevance is likely to be regarded as more important than generalizability” in action research (Dick, 2015, p. 10), we disagree with Greenwood and Levin (2007) who see no value in abstract generalizations of knowledge developed in a specific action contexts. Instead, we believe that abstract generalization and local applications form a dialectical relationship of mutual learning. In the context of CER responses, the outcomes of the last phase would, therefore, give rise to the identification of further areas of action application as well as a revised CER response framework. For instance, successful pilot projects on plastic waste reduction for specific products could be considered for a broader application throughout the MNC. In terms of framework development, this phase would ideally provide as an outcome a more elaborate understanding of how institutional voids causing exacerbated negative externalities vary across contexts (e.g. different emerging and developing economies) and how contextual variation, in turn, impacts the applicability of alternative CER responses across contexts.

Conclusion
In this paper, we focused on the role and responsibility of MNCs in contributing to and curbing environmental degradation. We concentrated in particular on exacerbated negative externalities that occur when MNCs transfer products, business processes and models from developed to emerging or developing economies. Leveraging and transposing the concept of institutional voids to the non-market context of CER, we proposed that negative externalities are often exacerbated in emerging and developing economies because buffering institutions are absent or weak and incoherent. On the basis of this insight, we develop a portfolio of CER responses that could serve mitigating or avoiding the exacerbated negative externalities cause by MNCs.

Taking recent calls for real-life relevance and more impact of critical management research seriously, we suggested an action research approach for the development and enactment of CER responses. With its focus on addressing real-life problems through participatory change action, we see action research very much in alignment with the key tenets of critical performativity. We are aware that our suggestion of applying action research to the CER context needs further elaboration and specification. Nevertheless, we see our discussion of an action research process and its CER implications, as a first important step toward developing real solutions to real environmental problems of wider public concern.

Finally, there is a need to elaborate more on the normative question were the environmental responsibility of MNCs in emerging and developing economies starts and
where it ends. While a compliance with environmental laws and regulations can be regarded as a minimum requirement for a firm’s responsible behavior (Carroll, 1991), this will probably in many instances not suffice to prevent exacerbated negative environmental externalities in emerging and developing economies. In tune with the message of our paper, we see MNCs’ environmentally responsible behavior to involve a thorough assessment of the negative environmental externalities caused (or potentially caused) and an implementation of responses that prevent or neutralize negative environmental externalities (Crouch, 2006; Gunningham, 2009; Hsieh, 2009). Ideally, such responses by MNCs would serve as a role model to other firms in emerging and developing economies and contribute to filling institutional voids of environmental protection in the host context.

References


**Further reading**


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