UNIVERSITÀ DEGLI STUDI DI PALERMO

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Multinational Enterprises and Sustainability: Challenges and Solutions

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INTRODUCTION

SETTING THE SCENE AND STATING THE PROBLEMS

Sustainability challenges are numerous in magnitude and multifaceted in nature. These challenges encompass a range of issues, such as climate change, worldwide poverty and inequality, depletion of natural resources, and environmental degradation, among others. On the one hand, the urgent need for sustainability requires collaboration and coordination at global and local levels (Rasche, 2012). On the other hand, sustainability requires understanding how decisions made today can have ripple effects in the future and how past actions have shaped the current state of the firm (Bansal & Desjardine, 2014).

As a result, sustainability challenges have attracted international business scholars' attention to understand whether and how multinational enterprises (MNEs) effectively contribute to sustainable development. Sustainability inherently involves considering long-term impacts and intergenerational equity and it is particularly challenging for MNEs. These typically face short-term pressures to deliver immediate financial results (Slawinski & Bansal, 2015). Moreover, they have extensive global operations, with subsidiaries, suppliers, and customers spread across different countries having their own environmental regulations, labor standards, and social expectations (Clarke & Boersma, 2017). Furthermore, the diverse economic, political, and social settings of countries where MNEs operate can either support or hinder their progress on the path towards sustainability. The strategies and solutions they might employ to address sustainability challenges remain an underexplored frontier in current research.

RESEARCH MOTIVATION

A foundational principle in the field of international business studies states that countries vary in their institutional contexts (e.g., Aguilera & Jackson, 2010; Fainshmidt et al., 2018; Hall & Soskice, 2001). Institutional contexts and their broader societal, economic, and political structures within which firms operate play a role in shaping their governance and strategies (e.g., Steinberg et al., 2022; Zattoni et al., 2017). This is particularly true when it comes to sustainability. The relationship between sustainability, MNEs, and institutional contexts is intricate. Institutional contexts, encompassing regulatory frameworks, market forces, resource access, and social norms profoundly shape how firms address sustainability challenges. Regulatory policies and market demands influence corporate responses to sustainability, while access to resources and social norms impact the feasibility of adopting sustainable practices. Recognizing and navigating diverse institutional contexts is crucial in developing effective strategies for sustainable business practices.

Typically, MNEs, as key players in international business (e.g., Hooghiemstra et al., 2019), engage within institutional contexts where they operate and are influenced by them. However, recent studies assign an agency role to MNEs and acknowledge their capacity to shape and alter institutions (Fortwengel & Jackson, 2016), particularly when they transfer organizational practices to foreign subsidiaries (Curchod, Patriotta, & Wright, 2020; Kostova, Marano, & Tallman, 2016). Therefore, examining the interactions between MNEs and institutional contexts worldwide has become a crucial matter in understanding how they can achieve sustainability. To enhance knowledge about this research topic, this dissertation offers a reflection on the sustainability challenges MNEs face and the solutions they employ to tackle these challenges, considering the institutional variety they face.

THE DISSERTATION STRUCTURE

This dissertation presents three chapters that offer complementary insights about the relationship between MNEs and sustainability, the challenges involved across different institutional contexts, and the solutions MNEs may design to address these. The dissertation is organized as follows:

1. Chapter I: "Multinational enterprises and global supply chain sustainability: A multilevel framework and research agenda".
2. Chapter II: "Home country uncertainty and multinational enterprises' sustainability performance".
3. Chapter III: "Institutional work and the transfer of diversity and inclusion practices within a multinational enterprise".

Though the thesis has a strong fil rouge that ties its different parts, each chapter serves as a self-contained and comprehensive essay, driven by the overarching objective of both broadening existing management theories and contributing to the enhancement of management practices. In the following paragraphs, a detailed exploration of the research purpose, the theoretical perspective adopted, the methods employed, and the main contributions of each chapter are illustrated. This examination provides readers with a nuanced understanding of how each chapter uniquely contributes to the broader reflection on how MNEs address sustainability challenges across diverse institutional contexts. Table I consolidates the requirements that sustainability places on MNEs, outlining the ensuing challenges and the respective solutions explored in each chapter.

Table I: Challenges and solutions discussed in the dissertation.

Chapters	Sustainability requirements	MNEs' challenges	MNEs' solutions
Chapter I	Reducing the environmental and social impact of MNEs' global supply chains scattered across diverse countries	Suppliers are dispersed across countries and constrained in incentives, resources, and knowledge to address sustainability	Building bridges between private, social, and public governance systems cut by global supply chains to promote shared action towards sustainability
Chapter II .	Allocating financial resources to develop new capabilities and knowledge for more sustainable behaviors	Financial resources are mostly used to deal with and compensate for weak and dysfunctional institutions in uncertain countries	Exploiting fiscal arbitrage opportunities in host countries to acquire new financial resources and capital to address sustainability
Chapter III	Ensuring diverse and inclusive workplaces in all MNEs' subsidiaries across countries	Diversity and inclusion may be perceived and addressed differently across countries	Entrusting local champion and boundary roles to specific organizational members in the transfer of diversity and inclusion practices to the subsidiaries abroad

Chapter I: "Multinational enterprises and global supply chain sustainability: A multilevel framework and research agenda"

Chapter one summarizes the extant literature about MNEs and sustainability within global supply chains (GSCs). Addressing sustainability in GSCs is particularly difficult since they present geographically dispersed operations and involve multiple actors. Moreover, suppliers and sub-suppliers often operate in countries characterized by weak institutions, and they may be unable or unwilling to face sustainability challenges (Kelling et al., 2020). On the one hand, MNEs are expected to provide them with sustainability rules and standards to which they should conform (Bird et al., 2019). On the other hand, suppliers are typically small and limited in resources to comply with MNEs' sustainability requirements (Egels-Zandén, 2007).

The arena in which MNEs address sustainability in GSCs is related to the concurrence of multiple governance systems and the coexistence of formal and informal mechanisms within each system. However, the literature on the topic appears fragmented and characterized by confusion in the definitions of the phenomena.

Using the Scopus platform, we collected an initial dataset composed of 9,651 papers. Further, we refined our search to obtain a final sample of 263 articles. In this stage, we conducted an in-depth descriptive and thematic examination of our final sample to classify papers according to the scope of the research focus. Finally, to provide a picture of the state-of-the-art, we organize a framework by theorizing with mechanisms of phenomena and their multiple levels of analysis (Post et al., 2020).

Chapter one offers four main contributions and provides future scholars with a research agenda on the topic. First, the study sheds light on the paramount relevance of considering three multiple governance systems (i.e., private, social, and public) that may interact to address sustainability in GSCs. Second, the study theorizes the interplay between formal and informal mechanisms in each governance system. Private, social, and public actors employ specific mechanisms and leverage their interplay to achieve sustainability. Third, the study discusses the agentic role of MNEs that trace *top-down* and *bottom-up* approaches interacting with social and public actors to reach sustainability across different countries. MNEs, embedded in multiple governance systems, foster exchanges of knowledge and resources throughout their GSCs. This collaborative approach enables the design and implementation of shared solutions addressing sustainability challenges. Lastly, expanding the scope of our framework, we identify the primary critical questions and unaddressed limitations in the existing literature, revealing promising avenues for future research.

Table II reports an overview of Chapter one.

Table II: Overview of Chapter one

Purpose	• Conducting a literature review on the topic of sustainability in global supply chains
Methodology	• Conducting a literature review and theorizing with mechanisms of phenomena and their multiple levels of analysis (Post et al., 2020) *Data sources*: • Selection of the database, keywords, journals, and articles *Data coding*: • In-depth descriptive and thematic examination (the authors' names, the title, the year of publication, the source of the title, the governance system analyzed, the theoretical lens, and the mechanisms used)
Sample	We built our sample by combining the two following searches and removing duplicates: • We selected articles published in the 50 top journals used in *FT Research Rank* • We sorted the dataset from the most cited paper to the lowest, and we selected articles that have received at least the top 10% of citations We obtained a final sample of 263 articles

Theoretical Contributions	The study: • Provides a comprehensive and interactive view of how the private, social, and public governance systems act towards sustainability • Explains the mechanisms, formal and informal, actors employ in each governance system and their potential interplay • Sheds light on the agentic role of MNEs that trace top-down and bottom-up approaches interacting with social and public actors to reach sustainability across different countries • Offers a research agenda with future research lines
Practical Implications	It provides practical implications to managers who are committed to designing effective governance systems to handle global sustainability challenges

Chapter II: "Home country uncertainty and multinational enterprises' sustainability performance"

Chapter two analyzes how home country uncertainty harms multinational enterprises' sustainability performance. The reason is that home country uncertainty induces MNEs to allocate resources and attention to navigate and compensate for low-quality institutions, creating limitations on their focus and contextual financing constraints on their investments in sustainability. As a result, their sustainability performance suffers. However, this study also proposes that MNEs investing in countries that provide fiscal arbitrage (i.e., tax havens) weaken this relationship. The reason is that these firms can leverage fiscal opportunities that free up resources, helping them undermine financing constraints at home and subsequently improve their sustainability performance.

Combining data from multiple databases (i.e., Refinitiv, World Data Bank, Tax Justice Network, Fraser Institute), we tested our hypotheses on a sample of 835 European MNEs from 20 home countries with 45,284 subsidiaries worldwide in the period from 2018 to 2020.

We find support for most of our hypotheses. The study offers two main contributions. First, it expands the existing body of knowledge on sustainability strategy (Matten & Moon, 2008) and its analysis of contextualization (Bansal & Bogner, 2002; Campbell, Eden, & Miller, 2012; Julian & Ofori-Dankwa, 2013). We argue that sustainability can involve several trade-offs in terms of financial resource allocation when MNEs are based in uncertain countries and deal with financing constraints posed by the context. Second, our research also enriches the field of institutional economics (North, 1990). Our findings extend beyond the traditional focus of institutional economics, which typically analyzes how uncertainty influences the make-or-buy decision (Williamson, 1989). We demonstrate that uncertainty directly affects the firm's capacity to invest and, consequently, its sustainability performance.

Table III offers an overview of Chapter two.

Table III: Overview of Chapter two

Purpose	• Investigating the relationship between home country uncertainty and sustainability performance • Investigating if the relationship between home country uncertainty and sustainability performance may be mediated by fiscal arbitrage exploited by MNEs in host countries characterized by low transparency
Theoretical Perspective	• Institutional economics (North, 1990; Williamson, 1989)
Methodology	Econometrics methods – pooled OLS regression (period 2018-2020) *Data sources* • Refinitiv database • World Data Bank • Tax Justice Network • Fraser Institute
Sample	The sample is composed of 835 European MNEs from 20 home countries with 45,284 subsidiaries worldwide
Theoretical Contributions	The study: • Contributes to the research on sustainability strategy (Matten & Moon, 2008) and its analysis of contextualization (Bansal & Bogner, 2002; Campbell, Eden, & Miller, 2012), enabling a deeper understanding of the relationship between home country uncertainty and sustainability • Reveals that uncertain country contexts pose financing constraints that significantly impact MNEs' conduct and their sustainability performance (Campello, Graham, & Harvey, 2010; Lamont, Polk, & Saaá-Requejo, 2001)
Practical Implications	Managers are demanded to design solutions to overcome the constraints posed by the country context and perform sustainability. Managers may employ fiscal arbitrage and tax optimization strategies to allow MNEs to optimize firms' tax burdens and increase investment capacity in sustainability.

Chapter III: "Institutional work and the transfer of diversity and inclusion practices within a multinational enterprise"

Chapter three shifts the focus of analysis from a macro level to a micro one to explore the complexities and obstacles MNEs encounter when attempting to transfer sustainability practices from one context to another. This examination complements the broader perspectives offered in the other chapters, which, taking a more macroscopic view, do not fully address the challenges associated with the actual transfer of practices between diverse institutional contexts. This inquiry specifically focuses on the creation of *diverse* and *inclusive* workplaces, a crucial aspect of sustainable development (Forbes in 2023).

MNEs have started to adopt Diversity and Inclusion (D&I) practices. The transfer of these practices across their international subsidiaries may be characterized by unpredictability and the presence of numerous uncertainties (Ferner, Almond, & Colling, 2005). MNEs' subsidiaries must navigate a dual challenge – adhering to internal organizational pressures, often stemming from the parent company's home country institutional context and responding to pressures originating from the unique local institutional context (Curchod, Patriotta, & Wright, 2020; Kostova, 1999). Simultaneously, research on D&I emphasizes that "employees should bring their entire set of identities to work" (Yang & Konrad, 2011: 7). Consequently, the transfer of these practices demands a profound adaptation to each subsidiary, significantly influenced by employees, their perceptions of diversity, and the institutional context in which they operate (Dass & Parker, 1999).

To explore how D&I practices are transferred from the parent company to the subsidiaries abroad, this chapter adopts a case study methodology of an MNE headquartered in the USA transferring D&I practices to its Italian subsidiary. We collected both primary (i.e., 50 interviews and 7 direct observations) and secondary (e.g., Gender Equality Plan) data and analyzed these through Gioia's methodology (Gioia, 2004).

This study offers three main contributions. First, we shed light on the process by which MNEs transfer D&I practices across subsidiaries situated in different institutional contexts. Since the concept of diversity holds varied meanings across countries (Ferner et al., 2005) and individuals (Dass & Parker, 1999), we adopt a micro-level analysis to uncover the individual agency forms that underlie the institutional work required for D&I practice transfer. On one side, we emphasize the significance of local champions as catalysts that assist organizations in initiating the transfer of practices and creating alignment between the practices of the parent company and local constraints. On the other side, we demonstrate the importance of assigning boundary-spanning roles to specific MNE actors and/or units to facilitate the adoption of new practices.

Second, we contribute to the body of research on the transfer of organizational practices by presenting a case study specifically focusing on the transfer of D&I practices across different institutional contexts. This emphasis is warranted as it appears that scholars in international business have not fully recognized the comprehensive potential of diverse and inclusive workplaces as a contributor to organizational well-being and sustainability.

Third, we enrich D&I research by exploring how MNEs may organize activities to cultivate diverse and inclusive workplaces. Our findings highlight that the local champion's and boundary-spanning roles, although they are not formalized, are critical in the transfer of D&I practices in the organization. Moreover, we state that D&I practices are institutionally embedded and require the employees' personal adherence to their institutional logics. This, in turn, places limitations on the feasibility of executing a codified, formalized, and standardized transfer of D&I practices.

Table IV offers an overview of Chapter three.

Table IV: Overview of Chapter three

Purpose	• Understanding how MNEs transfer D&I practices to subsidiaries abroad
Theoretical Perspective	• Institutional work studies (Lawrence, Suddaby, & Leca, 2009, 2011; Zietsma & Lawrence, 2010)
Sample	• The case selects an MNE headquartered in the USA and operating with subsidiaries in Italy, Ireland, China, Croatia, and Kazakhstan. Our case study focuses on the transfer from the parent company to the Italian subsidiary • For anonymity reasons, we call it "2LMP"
Methodology	Single case study methodology (Golden-Biddle & Locke, 1993) *Data Sources* - the case of 2LMP • Primary data (50 interviews with 2LMP's members and 7 direct observations) • Secondary data (GEP of 2LMP, 2LMP website, Eurostat website, the program of the D&I month, etc.) *Data Coding* • From the analysis of our data, we identified 1-order and 2-order concepts. After subsequent comparisons of the data, we created aggregate dimensions to support the research and built our analytical framework through an abductive research process, moving between empirical data and theory (Gioia, 2004)

Theoretical Contributions	• MNEs activate forms of institutional work (i.e., practice work and boundary work) to transfer D&I practices to subsidiaries abroad • Local champions together with the establishment of boundary spanners and boundary-spanning roles provide an opportunity to create a fit between the parent company's D&I requirements and local constraints (Gutierrez-Huerter O et al.,2020; Schotter et al., 2017) • D&I practices are ingrained within institutional contexts and necessitate employees to personally align with the underlying institutional logics
Practical Implications	• Establishing specific organizational settings and roles, activating collaborations with local actors to institutionally embed the D&I practices, and providing organizational members with training opportunities on the knowledge of D&I.

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CHAPTER 1[1]

MULTINATIONAL ENTERPRISES AND GLOBAL SUPPLY CHAIN SUSTAINABILITY: A MULTILEVEL FRAMEWORK AND RESEARCH AGENDA

ABSTRACT

Multinational enterprises may promote global supply chain sustainability by formulating private codes of conduct and/or exploiting their bargaining power. Additionally, many multinational enterprises are engaged in standard-setting partnerships with other actors. At the same time, these firms operate within institutional contexts strongly influenced by public policy and cultural factors. To shed light on the way in which multinational enterprises promote sustainability along their global supply chains, extant studies usually focus on a single governance system (private, social, or public) and/or specific mechanisms (formal or informal). In this paper, we summarize previous literature and develop a framework that considers different governance systems and, for each governance system, the interplay between formal and informal mechanisms. As actors embedded in different institutional contexts, we discern a potentially privileged role multinational enterprises may play in bridging the different governance systems identified in the framework proposed. Finally, based on our framework, we discern policy and managerial implications and suggest directions for future investigations.

Keywords: *Literature review, sustainability, global supply chain, MNEs, governance, institutions.*

[1] This chapter is coauthored with Pasquale Massimo Picone and Arabella Mocciaro Li Destri.

INTRODUCTION

Since the United Nations voiced the necessity for sustainability in order to "meet the needs of the present without compromising the ability of future generations to meet their own needs" (Brundtland Commission, 1987: 15), there has been a mounting awareness of the relevance and urgency to work towards this challenging global objective. More recently, the United Nations' Agenda 2030 includes "Partnership for the Goals" as the 17th Sustainable Development Goal. According to the United Nations' Agenda, public actors must not be left alone in reaching the 17 interconnected goals. As a grand challenge of contemporary society, sustainability requires that individuals, firms, and broader communities contribute to the overall ecological, societal, and economic well-being alongside public actors (Scherer & Voegtlin, 2020).

Correspondingly, international business literature reflects on the issue of "Partnership for the Goals," primarily by focusing on the role of multinational enterprises (MNEs) as powerful actors in Global Supply Chains (GSCs) (Schrage & Gilbert, 2021). Raising firms' awareness regards the way sustainability is linked to legitimacy (Bird, Short, & Toffel, 2019), the need to collaborate with different stakeholders (Gilbert & Rasche, 2008), the increasing influence of non-public actors (mainly, MNEs and non-governmental organizations) over national governments in regulating sustainability issues (Locke, Rissing, & Pal, 2013), the mistrust of codes of conduct and of the cosmetic functions often underlying the adoption of sustainability rules (Adelstein & Clegg, 2016) are some of the critical topics that scholars have addressed to explore the arena in which MNEs move to foster sustainability in GSCs.

We notice, though, that the research investigating the arena where MNEs carry out sustainability actions along their GSCs is incredibly fragmented and presents confusion in defining the same phenomenon[2]. First, prior literature identifies three different systems of governance, namely “principles, norms, rules and decision-making processes around which actor expectations converge in a given issue area” (Krasner, 1983: 2). In detail: (a) the private governance system that mainly involves buyer MNEs, suppliers, and sub-suppliers; (b) the social governance that embeds multiple social actors such as non-governmental organizations; and (c) the public governance systems represented by the legal and institutional settings governed by public actors. Second, extant literature commonly focuses on a single governance system without distinguishing how specific governance systems may influence each other, nor the MNEs’ role within them (Vogel, 2008). Third, while some researchers emphasize formal rules and law systems as sources of coercion to promote sustainability (Delmas & Montes-Sancho, 2011; Preuss, 2010), other studies prove that both formal and informal mechanisms inform sustainability issues (Adam & Rachman-Moore, 2004). However, the extant literature on sustainability in GSCs often examines formal and informal mechanisms independently (Kock & Min, 2016; Soundararajan & Brown, 2016).

The upsurge of studies on the role MNEs play in promoting sustainability across their GSCs joined with the fragmentation of this literature, calls for a wide-range understanding of the state-of-the-art of extant research. Reviewing extant studies becomes paramount to advancing theory about the arena in which MNEs may most effectively contribute to global sustainability. Additionally, a systematic appreciation of extant literature supports scholars in extracting insights to build a new research agenda on the topic (Suddaby, 2014).

[2] Extant literature on how sustainability is addressed in GSCs is fragmented and presents a certain confusion due to a disparate collection of definitions: *transnational governance* (Barkemeyer et al., 2015; Laudal, 2010; Reinecke and Donaghey, 2015; Bird et al., 2019), *global governance* (Banerjee, 2014; Rasche, 2010; Locke et al., 2013; Rotter et al., 2014; Thomas and Turnbull, 2018; Alamgir and Banerjee, 2019), *multi-stakeholder governance* (Fougère and Solitander, 2020); *non-state market-driven governance* (Cashore, 2002), and so on.

This paper aims to consolidate the understanding offered by extant literature on the arena in which MNEs act toward sustainability across GSCs. Specifically, this paper offers a threefold contribution. First, a state-of-the-art review of the literature on 263 peer-reviewed articles allows us to develop a framework encompassing different governance systems (i.e., private, social, and public) that promote sustainability and formal and informal mechanisms for each governance system. Second, in the footsteps of Zhou and Xu (2012) and Huang et al. (2014), we advance theory by illustrating how the interplay of formal and informal mechanisms through specific paths promotes sustainability in each governance system. Third, leveraging our framework, we represent MNEs as embedded actors in an arena in which they are able to bridge multiple governance systems. Finally, leveraging our conceptual framework, we extract some valuable and uncultivated research areas and the main implications for management and public decision-makers.

CONCEPTUAL PILLARS

Global Supply Chains Governance

GSC governance stands for authority and responsibilities defining, shaping, and implementing global regulations and taking care of global public goods (Schrage & Gilbert, 2021). Then, along GSCs, multifaceted sources of power and authority exist, and the power of a single actor, such as an MNE, may be relevant but not boundless (Schrage & Gilbert, 2021).

Following Schrage and Gilbert (2021) and Gereffi and Lee (2016), we recognize three governance systems. *Private governance* concerns the source of authority to control suppliers' compliance with sustainable practices. This governance system typically involves buying MNEs and suppliers and is characterized by the dynamics, relationships, and interests among specific corporate actors (Schrage & Gilbert, 2021).

The *social governance system* "comes from local and global civil society groups, such as trade unions and non-governmental organizations, that exert influence and pressure on GSCs through different forms of activism and collaboration with buyers and suppliers" (Schrage & Gilbert, 2021: 663). Non-governmental organizations, trade unions, non-profit organizations, social businesses, and consumer groups may form coalitions to address global firms' and markets' social and environmental challenges.

Finally, the *public governance system* is represented by the legal and institutional settings governed by public actors that influence the ways through which private and social actors operate. Public actors provide sustainability rules and MNEs and, more generally, people, must comply with them (Buhmann, 2016).

Mechanisms at Play in the Governance of GSCs

Extant literature has defined formal and informal governance mechanisms by alternatively employing many labels such as rules, institutions, and governance mechanisms (Aoki, 2001; Grzymala-Busse, 2010; Helmke & Levitsky, 2004; North, 1990; Zenger, Lazzarini, & Poppo, 2002). We use the label "mechanisms" (Aoki, 2001; Zenger et al., 2002) to identify "rules, constraints, and incentives that are instrumental to the governance of exchanges" (Zengel et al., 2002: 2). Furthermore, we consider laws, rules, codes, and standards as examples of *formal mechanisms* that can be enforced both by the state and institutions or widely accepted as official in organizations (Helmke & Levitsky, 2004). By leveraging formal mechanisms, actors can exercise control in each governance system. Differently, we refer to *informal mechanisms* as unwritten rules that are observed not because officially enforced, but socially shared. By employing informal mechanisms, actors exert influence in each governance system (Grzymala-Busse, 2010; Zenger et al., 2002).

Although formal mechanisms outline the domain for informal ones and it is thought that these depend on the former (Grzymala-Busse, 2010), it is also true to affirm that there is the possibility that the latter (positively or negatively) influences the effectiveness of the former. Table I reports the main definitions employed in this study.

Table I: Definitions

	Definition
Private governance	Corporate actors (e.g., buyer MNEs, suppliers, and sub-suppliers) operate to implement sustainable practices along GSCs (Gereffi and Lee, 2016; Schrage and Gilbert, 2021).
Social governance	Social actors (e.g., non-governmental organizations, not-for-profit organizations, trade unions, and social businesses) operate to implement sustainable practices along GSCs (Gereffi and Lee, 2016; Schrage and Gilbert, 2021).
Public governance	Public actors (e.g., national governments, international organizations, and government agencies) operate at national and international levels to implement sustainable practices along GSCs (Gereffi and Lee, 2016; Schrage and Gilbert, 2021).
Formal mechanisms	Mechanisms by which an actor exerts *control* based on hierarchy authority (at private governance), social authority (at social governance), and public authority (at public governance) to implement sustainable practices along GSCs.
Informal mechanisms	Mechanisms by which an actor exerts *influence* based on hierarchy authority (at private governance), social authority (at social governance), and public authority (at public governance) to implement sustainable practices along GSCs.

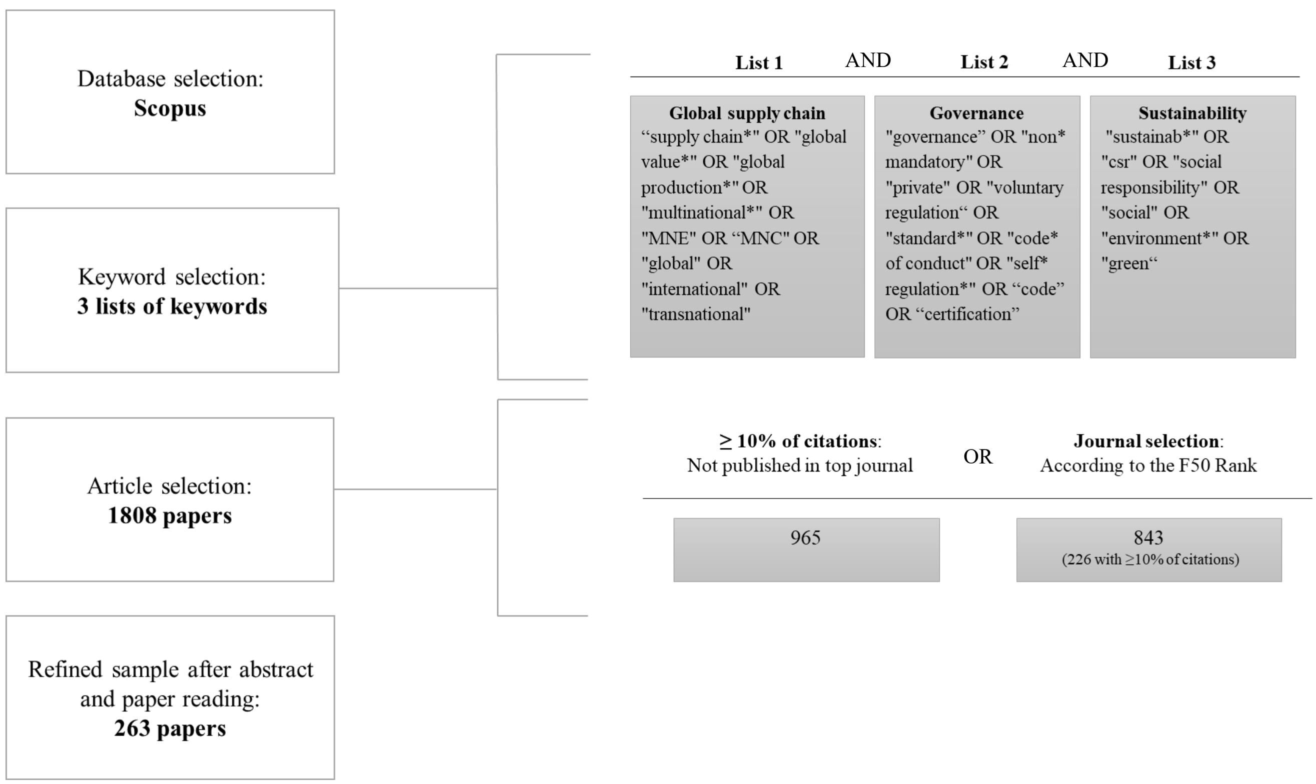
METHODS

We carried out a literature review to synthesize research findings and reveal areas that require further investigation. To broaden the reliability, replicability, and transparency of our review (Aguinis, Ramani, & Alabduljader, 2023), we describe our research strategy in this section.

Database

We selected articles using the Scopus platform by carrying out a multistep procedure, as summarized in Figure 1.

Figure 1: Article review process.



First, we distinguished our search terms into three thematic pillars. The first thematic pillar focuses on the context of analysis: GSCs; the second and third pillars account for governance and sustainability, respectively, as the main phenomena under observation. We created three lists of keywords, as reported in Figure 1, and used them to perform an advanced search in the Scopus Database with the Boolean operators.

Second, we selected articles that include the keywords of List 1, List 2, and List 3 in the title, abstract, or keywords. Then, to select papers focused simultaneously on governance and sustainability in GSCs, we combined the results obtained by using the Boolean operator “AND.” As a result, this search string ensured that every identified title, abstract, or keyword includes a combination of any of the keywords from all three thematic pillars.

Third, we limited the search to the following criteria: articles published in peer-reviewed journals (source type) and written in English. As a result, we obtained a dataset composed of 9,651 papers.

Fourth, we further refined our search as follows: (a) we selected articles published in the 50 top journals used in *FT Research Rank*; practically 843 articles were published in prestigious journals; (b) we sorted the dataset from the most cited paper to the lowest, and we selected articles that have received at least the top 10% of citations: 965 articles have satisfied this criterion. Lastly, we combined the results of the two searches, obtained a sample of 1,808 papers, and removed the duplicates (226 articles). This procedure allowed us to achieve two main advantages: (a) to collect the consolidated literature that has significantly contributed, in terms of citations, thus, academic impact, to the debate on sustainability in GSCs; (b) to collect recent studies published in top journals though they have not yet obtained a high number of citations.

Fifth, we eliminated articles whose abstract did not discuss the arena in which MNEs promote sustainability in GSCs according to at least two of the three authors of this study. For instance, we excluded Abdi and Aulakh's work (2012) that was selected for the word "environment" included in the abstract, although its meaning stands for "context." Still, we removed the paper by Jorgensen and Knudsen (2006) focused on the sustainability of competitive advantage. Additionally, we removed literature reviews. As a result, we obtained a final dataset composed of 263 papers.

Data Analysis

In this stage, we conducted an in-depth descriptive and thematic examination of the 263 studies composing our final sample. By doing so, we built a table including the primary information of each paper: the authors' names, the title, the year of publication, the source of the title, the governance system analyzed, the theoretical lens used, and the mechanisms identified. Then, moving from the definitions provided in Table I, we classified papers according to the scope of the research focus. Probably because the definitions of governance and mechanisms were cut since the beginning, no relevant conflict among authors emerged in interpreting the findings. Table II illustrates the main results of our descriptive analysis.

Table II: Descriptive analysis

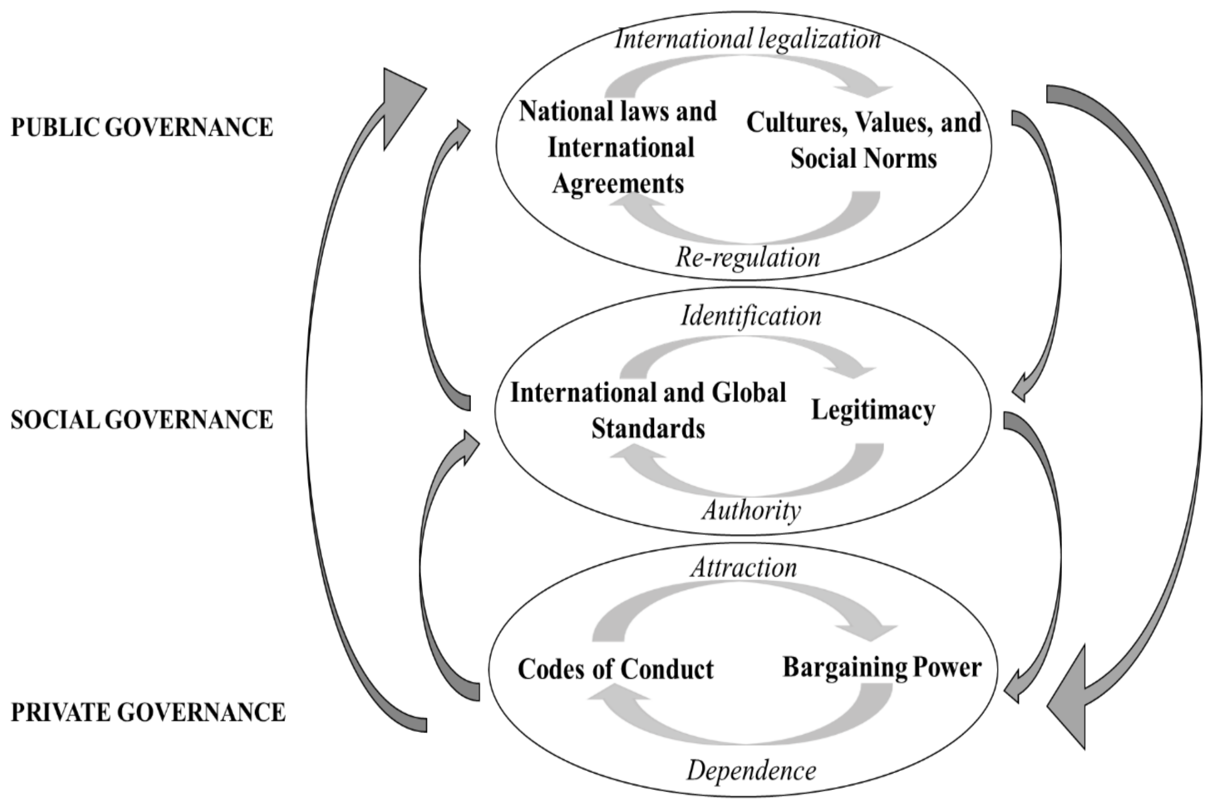
	Private Governance	Social Governance	Public Governance
Formal mechanisms identified in the literature	Codes of conduct	International and global standards	National laws and international agreements
Informal mechanisms identified in the literature	Bargaining power	Legitimacy	Cultures, values, and social norms
Number of relevant papers	86	115	62
Number of papers per time period			
1996-2001	2	3	3
2002-2008	13	17	6
2009-2015	43	57	33
2016-2022	28	38	20
Main journals and number of paper per journals	Journal of Business Ethics (35) International Journal of Operations and Production Management (5) Journal of Cleaner Production (4) European Management Journal (3)	Journal of Business Ethics (56) Business and Society (6) Journal of Management Studies (6) Business Ethics Quarterly (6) Human Relations (4)	Journal of Business Ethics (22) Journal of International Business Studies (6) Journal of Cleaner Production (5)
Main theories	Transaction cost economics Global value chain approach	Political corporate social responsibility Stakeholder theory Social movement theory	Institutional theory
Illustrative references	Acquier, Valiorgue, and Daudigeos (2017) Andersen and Skjoett-Larsen (2009) Delmas and Montiel (2009) Van Tulder, Van Wijk, and Kolk (2009) Yu (2008)	Cashore, (2022) Bernauer and Betzold (2012) Islam, and Van Staden (2018) Reinecke, Manning, and Von Hagen (2012) Vogel (2008)	Brammer and Walker (2011) Buhmann (2016) Castaldi, Wilhelm, Beugelsdijk, and van der Vaart (2023) Schrempf-Stirling (2018) Rotter, Airike, and Mark-Herbert (2014)

TOWARDS A FRAMEWORK

The fragmentation of literature regarding the arena in which MNEs address sustainability is related to the concurrence of three governance systems (i.e., private, social, and public) and the coexistence of formal and informal mechanisms within each system.

To provide a picture of the state-of-the-art, we organize a framework – reported in Figure 2 – by theorizing with mechanisms of phenomena and their multiple levels of analysis (Post et al., 2020).

Figure 2: Intersections Between Multiple Governance Systems



We design a framework on three governance systems - private governance is at the bottom and represents the governance system in which MNEs and their suppliers and sub-suppliers work together to foster a sustainable business. Between private governance and the public one, in the social governance system, actors like non-governmental organizations, non-profit organizations, and other social actors establish sustainability initiatives that usually involve communities. Lastly, at the top of our framework, public actors act to design sustainability rules at both global and local levels. Additionally, our framework summarizes previous research by distinguishing between formal and informal mechanisms. We discern two key mechanisms within the private governance system: a) codes of conduct; and b) bargaining power. Moreover, we find two critical mechanisms within the social governance system: a) international and global standards; and b) legitimacy. Finally, we observe two crucial mechanisms within the public governance system: a) national laws and international agreements; and b) national cultures, values, and social norms. Such a conceptual framework helps to understand "the interactive and dynamic nature of a concept at multiple levels of analysis" (Elsbach & van Knippenberg, 2020: 1285) and leads research forward. Additionally, it pushes to exploit the potential synergies and manage the challenges of operating between governance systems.

Furthermore, leveraging previous literature for each governance system, our framework identifies two *paths* that convey the interplay between formal and informal mechanisms. Formal mechanisms are not stable but are in "a state of flux," so they vary over time (Grzymala-Busse, 2010); they repeatedly interact with informal ones, and such interplay can give convergent and divergent outcomes (Helmke & Levitsky, 2004). Formal mechanisms can be enhanced or undermined by informal ones depending on whether the latter behaves as complementary, substitutive, or, in some cases, accommodating to the former (Helmke & Levitsky, 2004; Zenger et al., 2002). We discern such paths linking formal and informal mechanisms directly from the study of extant research. However, they emerge mainly from empirical evidence, and the conceptual advancements regarding such paths are limited. Finally, our framework represents the arena in which MNEs operate. In this setting, we consider that MNEs may act with an agency role in the global arena.

PRIVATE GOVERNANCE

Private governance primarily accounts for the economic transactions among MNEs and suppliers within GSCs (Gereffi & Lee, 2016; Schrage & Gilbert, 2021). From a theoretical perspective, studies regarding transaction cost economics theory, the global commodity chain approach (Gereffi, 1999), and its further developments - global value chain (Lee & Gereffi, 2015) and global production network (Alexander, 2020) studies - have deeply informed knowledge on the private governance of GSCs.

Typically, transaction cost economics theory investigates the reasons that guide managers in deciding whether to internalize some firms' operations and outsource others to suppliers and sub-suppliers. By resting on assumptions of limited rationality, imperfect information, and opportunistic behaviors of economic actors, scholars explore the suppliers' conduct (or misconduct) in GSCs (Acquier et al., 2017; Delmas & Montiel, 2009; Jiang, 2009). Transaction cost economics theory identifies transaction costs and coordination problems that business partners face (Williamson, 1996). Transaction costs rise as the intensity and frequency of transactions and asset specificity increase. Buyers and suppliers are highly dependent on each other when they dedicate non-re-deployable assets and investments (Acquier et al., 2017). Implementing codes of conduct and sustainable practices requires MNEs and suppliers to make significant investments and sustain new transaction costs. Among these, Acquier et al. (2017) identify the cost of recognizing social and environmental issues that buyers and suppliers should address in GSCs, the cost of modifying existing contracts or creating new ones that better allocate responsibility to suppliers, the cost of implementing monitoring and auditing systems and so on.

According to the global value chain approach, GSCs present two main chain governance structures: buyer-driven and producer-driven chains (Gereffi, 1999). Major retailers and brand-name firms present buyer-driven chains on which they exert relevant power, set parameters, allocate resources, distribute gains, and make significant decisions about production processes and activities without owning the production facilities. In its initial development, the global value chain approach provides a vertical meaning to the chain regarding the power relationship between buyers and sellers; its further progress shifts the focus from commodities to value chains, from a vertical dimension to a horizontal one (connections located in broader regulative, cultural, and institutional contexts). It involves extra-firm actors like governments and trade unions (Robinson, 2010). Therefore, the evolution of the original formulation from "governance as drivenness" (i.e., who owns power along the chain) to "governance as coordination" (i.e., how and where the transactions along the chain are coordinated) is attracting scholarly attention to multiple national-institutional environments, as active contexts that shape the private governance of GSCs (Lee & Gereffi, 2015; Lee et al., 2020). Moreover, initial studies of the global commodity chain approach focus on technical parameters (i.e., how a product should be produced, in what quantity, at what price, and by whom it should be supplied; Robinson, 2010), while recently, the possibility of influencing chain governance regarding sustainability issues, such as gender equality, poverty gaps, and environmental concerns has emerged (Lee et al., 2020; Reis & Molento, 2020). Indeed, MNEs should "cascade" sustainability requirements to their multi-tier suppliers in building sustainable GSCs (Alexander, 2020; Doh, 2005; Jia, Huang, & Man Zhang, 2019; Soundararajan & Brown, 2016). However, it may require substantial effort: first, activating a direct collaboration between the focal firms' procurement unit with the suppliers' unit (Reuter et al., 2010) and involving both supplier and procurement personnel in three interlinked procurement processes; i.e., assessing, training, and incentivizing (Gopalakrishnan et al., 2012); second, promoting an internal collaboration with the R&D unit and an external one with industry associations (Fang & Cho, 2020); and third, ensuring that management covers a crucial role in creating, implementing, and communicating a sustainable model to suppliers and their employees (Adam & Rachman-Moore, 2004; Maak, Pless, & Voegtlin, 2016).

In light of this overview of private governance, we infer that MNEs deal with multiple solutions to face sustainability challenges in their GSCs, sometimes even deciding to combine two or more of them. Below, we describe how MNEs formally and informally engage their suppliers in reaching sustainability goals.

Formal Mechanisms in Private Governance

MNEs deploy formal mechanisms to *control* their suppliers' compliance with sustainability practices within their hierarchies. Accordingly, corporate codes of conduct represent the main formal tools to reduce the adoption of non-sustainable practices and their negative impact on focal firms' performance and reputation. Corporate codes of conduct may require monitoring suppliers' activities and operations and auditing their social and environmental performances (Short, Toffel, & Hugill, 2016), certifying and labeling their products (Morrow & Rondinelli, 2002; Rondinelli & Vastag, 2000), implementing reward and punishment systems (Yu, 2008).

Several studies investigate whether and how MNEs address sustainability issues in their supply chains through corporate regulation (Andersen & Skjoett-Larsen, 2009; Kaptein, 2004; Yu, 2008). Corporate codes significantly affect suppliers' selection and monitoring processes. Anecdotal evidence reveals that corporate codes of conduct frequently do not have a holistic and substantive approach to sustainability (Bird et al., 2019; Kolk & Van Tulder, 2002; Perez-Batres et al., 2012; Robinson, 2010). To evaluate whether corporate codes of conduct constitute a substantial effort or instead are just “a race to ethical and legal minimum” (Yu, 2008: 513), Van Tulder et al. (2009) carry out a study in which they identify two main dimensions: (a) *specificity*: how many issues the code covers; (b) *compliance*: whether the code requires the establishment of monitoring and punishment systems. Van Tulder et al. (2009) trace a path from low specificity and low compliance of a corporate code to high specificity and high compliance, unveiling the shift from a chain liability to a chain responsibility approach and from a sense of doing well to one of doing well by doing good.

The implementation of corporate codes breeds a particular enthusiasm and, at the same time, skepticism in promoting sustainable practices. On the one hand, corporate risk along the supply chain increases consumers’ and end-users’ trust and improves environmental and social performance (Kaptein, 2004). On the other hand, codes of conduct have proliferated so much that some scholars (Kolk & Van Tulder, 2002; Preuss, 2010) talk about a “cascade of codes” and question their quality and effectiveness. Adelstein and Clegg (2016: 64) define corporate codes as “merely window dressing” that could be considered “a vehicle for the shady workings of organizational risk management.” The question is rooted in the variety of limits that firms and their suppliers have to deal with to obey them, such as the high costs related to providing better prices and quality to remain competitive in the market (Yu, 2008); the trade-off between profitability and environmental and social performance (Barnea & Rubin, 2010); the underlying issues that codes address are often of global concern that hardly fit in suppliers’ local contexts (Pinkse, Kuss, & Hoffmann, 2010; Talaulicar, 2009); the government’s insufficient support (Kolk & Van Tulder, 2002).

Informal Mechanisms in Private Governance

MNEs can promote sustainability along GSCs by *influencing* their upstream partners to conform to sustainability practices (Delmas & Montiel, 2009: 177). MNEs, as highly reputed firms, may exercise strong bargaining power enhanced by idiosyncratic investments (e.g., ex-ante training or ex-post incentives) and resource dependencies (Acquier et al., 2017; Hernández-Espallardo et al., 2010). Drawing on transaction costs theory, scholars argue that suppliers engaged in transactions involving high specific investments are more likely to comply with buyers' sustainability requirements (Delmas & Montiel, 2009). Transactions between firms typically may create resource dependencies that are not always advantageous, especially when resources are scarce, not readily achievable, and not in their ownership. From this perspective, suppliers need resources, knowledge, and capabilities to comply with environmental and social issues (Soundararajan & Brown, 2016).

The Interplay of Formal and Informal Mechanisms within Private Governance

Increasing stakeholder pressures lead MNEs to perform sustainable conduct in GSCs by imposing corporate codes of conduct (Bird et al., 2019; Perez-Batres et al., 2012). Accordingly, corporate regulatory efforts and monitoring activities regarding supplier compliance with codes of conduct represent a significant concern for firm reputations (Dhingra & Krishnan, 2021). Then, from previous literature, we infer a first path linking formal and informal mechanisms, when MNEs imposing a code of conduct to their suppliers are recognized as sustainable businesses by the market and *attract* suppliers who want to establish procurement contracts with them. However, codes of conduct imposed by buyer MNEs affect suppliers differently across institutional contexts (Fransen, 2013), revealing the ineffectiveness of a "compliance paradigm" (Egels-Zandén, 2007; Jiang, 2009; Lund-Thomsen & Lindgreen, 2014). As a result, compliance can be challenged, and MNEs need to leverage informal mechanisms, make investments supporting suppliers (e.g., training sessions), promote a more “collaborative paradigm,” and ensure a participative implementation process of corporate codes (Helin & Sandström, 2010; Gimenez & Sierra, 2013; Lee et al., 2020; Lund-Thomsen & Lindgreen, 2014; Soundararajan & Brown, 2016). MNEs can use their bargaining power and centrality in GSCs to push suppliers to make significant investments to comply with their requirements (Bird & Soundararajan, 2020). Due to their idiosyncratic nature, these investments require a contract between MNEs and suppliers to support them but, on the other hand, render the latter dependent on the former. Such investments make the contracts with buyer firms crucial, increase the suppliers’ dependence on them, and thus lead them to conform to corporate rules. Therefore, the interplay between formal and informal mechanisms facilitates the implementation of sustainability in MNEs-supplier relationships through the *dependence* path. In the end, formal and informal mechanisms converge, complementing their effectiveness.

SOCIAL GOVERNANCE

Social governance represents sustainability initiatives created by non-governmental organizations, trade unions, non-profit organizations, consumer groups, and social businesses that exert influence and pressure on GSCs (Schrage & Gilbert, 2021). Several research streams have explored the social governance’s initiatives for sustainability; among these, the research on deliberative democracy and political corporate social responsibility (Barlow, 2022; Detomasi, 2015; Eberlein, 2019; Levy, Reinecke, & Manning, 2016; Martens, van der Linden, & Wörsdörfer, 2019; Reinecke & Donaghey, 2021; Rotter, Airike, & Mark-Herbert, 2014; Scherer & Palazzo, 2011; Scherer, Palazzo, & Matten, 2014), social movement theory (Boghossian & Marques, 2019; Reinecke & Ansari, 2016; Reinecke & Donaghey, 2015; (Reinecke et al., 2012; Voegtlin et al., 2022) and stakeholder theory (Christmann, 2004; Fransen & Kolk, 2007; Gilbert & Rasche, 2008; Schneider & Scherer, 2015) provide relevant understanding on the issue.

Within the social governance system, the involved actors activate deliberation processes to take sustainability decisions that are considered democratically legitimate. Drawing on this assumption, for instance, Barlow (2022) considers the social governance system as a “regulatory institution” that creates rules addressing global sustainability issues, such as labor rights, environmental standards, and working conditions (Detomasi, 2007; Hemphill & Lillevik, 2011). Operating in global networks across institutional contexts requires MNEs and their multi-tier suppliers to comply with multiple rule systems underlying sustainability issues stemming from social governance regulatory efforts (Gereffi & Lee, 2016; Locke et al., 2013). These may include international and global standards, certification and labeling schemes, and soft laws. Often these mechanisms lead to better coordination among industries and governments “in establishing what social expectations the modern MNC will be expected to fill” (Detomasi, 2007: 321). On the one hand, conforming to regulations provided by social governance is necessary to avoid remaining excluded from global markets, especially for suppliers in developing countries (Banerjee, 2018; Perez-Aleman & Sandilands, 2008; Preuss, 2010). On the other hand, when social governance systems include global and local actors (Rasche, 2012), they provide legitimacy to the implementation of a sustainable model at both global and local levels by overcoming what Bhanji and Oxley (2013: 290) define as “dual liability of foreignness and privateness.”

As a result, social governance plays a central role in defining the rules according to which GSCs should implement sustainable practices and sets collaborative learning alliances and campaigns (Arya & Salk, 2006; Kolk, 2005; Islam & van Staden, 2018). In this way, social actors offer their expertise and resources to overcome the limits of both private and public governance systems (Lambell et al., 2008). On the one hand, corporate codes of conduct have frequently been used merely to enhance firm reputation (Adelstein & Clegg, 2016). On the other hand, governments need a long time to formulate public laws that, amongst other things, are applicable within national borders or regional areas (e.g., EU, WTO) that are nonetheless defined by a set of national borders. For such reasons, scholars have widely investigated the phenomenon of social governance. Below, we describe separately how social actors employ formal and informal mechanisms.

Formal Mechanisms in Social Governance

Formal mechanisms in social governance refer to the initiatives that formulate and implement international and global standards, certification and labeling schemes, and soft laws to *control* compliance with sustainability requirements. Accordingly, a renewed Habermasian view of deliberative democracy recalls the MNEs' political responsibility that, in coalition with civil society organizations, institutions, state agencies, and governments, provide public policy issues (e.g., protection of human rights) and bear specific duties towards sustainability (e.g., Lock & Seele, 2016; Martens et al., 2019; Rotter et al., 2014; Scherer et al., 2014; Voegtlin & Pless, 2014).

Social governance regulatory actions often occur only in developed economies, leaving out the weaker economies that constitute the suppliers' homelands. Additionally, the question is quite delicate when sourcing processes involve smallholders at the bottom of GSCs. Indeed, Lund-Thomsen and Nadvi (2010) have dedicated attention to MNEs and their smallholder production systems in developing countries by pinpointing the dichotomy that habitually marks regulations issued by social actors in these value chains. On the one hand, rules provided by social governance allow smallholders to deal with MNEs and access profitable global markets; on the other hand, such sustainability rules represent a hurdle for those producers who do not have sufficient information, resources, knowledge, and expertise to comply with them (Montiel, Christmann, & Zink, 2019). In this regard, Perez-Aleman and Sandilands (2008) stress the importance of a bottom-up approach in global standards formulation and implementation processes, promoting an "active assistance approach" between MNEs, smallholders, non-governmental organizations, and governments, providing small producers training services, information, specialized and financial support. Arguably, Behnam and MacLean (2011) talk about international sustainability standards as a "wall" and argue that ensuring resources and training are crucial to prevent forms of decoupling (Jastram, Otto, & Minulla, 2023).

Informal Mechanisms in Social Governance

Informal mechanisms in social governance regard the social actors' initiatives that *influence* the implementation of sustainable practices along GSCs at the global and local levels. Rooted in the ideas of neoliberalism (Alamgir & Banerjee, 2019; Utting & Zammit, 2009), social governance gains its authority and legitimacy in a process that is "communicative in nature" to provide public goods (Rotter et al., 2014: 584). Some authors have claimed that public institutions are losing their legitimacy by entrusting democratic and open processes of governance to multi-stakeholder initiatives (Cashore, 2002; Mena & Palazzo, 2012; Reinecke & Donaghey, 2021). Indeed, social actors can effectively support global sustainability rule-making processes once a certain degree of legitimacy is reached (Botzem & Dobusch, 2012).

Taking part in international negotiating processes regarding sustainability standards strengthens their legitimacy in promoting sustainability in global markets (Banerjee, 2010; Martens et al., 2019; Mueller, Dos Santos, & Seuring, 2009). The social governance system gains legitimacy by responding adequately to all stakeholder claims. Several studies have explored social governance systems as a source of legitimacy (Banerjee, 2010; Botzem & Dobush, 2012; Cashore, 2022; Donaghey & Reinecke, 2018; Schepers, 2010).

Bird et al. (2019: 7) argue that social governance systems constitute "hyper-rationalized environments" that guide GSCs in conforming to sustainability practices. By addressing the problem of "policy-practice decoupling" (Kelling et al., 2020: 815), Bird et al. (2019: 2) define corporate labor codes as "legitimacy structures" and claim that their adoption tends to be decoupled from suppliers' practices. This phenomenon occurs mainly when suppliers lack organizational resources and operate in less-developed institutional contexts. However, complete decoupling of practices appears untenable in highly rationalized environments (such as those marked by broad social actor mobilization). The reason may lie in the higher degrees of legitimacy that social actors typically own. Nevertheless, due to the proliferation of social governance initiatives and their related standards, building and maintaining legitimacy remain serious challenges even for social actors (Reinecke et al., 2012) and sometimes these can reveal a "minimalist" intent (Jamali & Keshishian, 2009).

The Interplay of Formal and Informal Mechanisms within Social Governance

Social actors increasingly set international and global standards to overcome the constraints of implementing corporate regulations (Locke et al., 2013). According to previous literature, they grant *identification* in the sustainability field and enhance participant legitimacy (Zeyen, Beckmann, & Wolters, 2016).

Additionally, we find a path linking legitimacy and international and global standards. The more legitimacy social actors gain, the more likely they will increase their *authority* to establish standard-setting processes successively. In this regard, Schepers (2010: 281) claims, "the predominant method of gaining authority is through legitimacy derived from community assent.

Such legitimacy grants the organization the right to govern and the obligation of members to accept such governance". Playing the role of rule-makers allows social actors to bring the needs of societies and local communities to the tables in which formal rules, provided by the social governance systems, are defined and, thus, enhance their effectiveness. For instance, Manning and Reinecke (2016: 24) argue that the "degree to which they (standard setters) are seen as legitimate within the trans-local community" influences sustainability standards implementation through local practice experimentations. In this case, formal and informal mechanisms converge, and the latter complements the former.

PUBLIC GOVERNANCE

Public governance regards the actions of international public actors – such as those that define international trade agreements (e.g., NAFTA, AGOA) – and local public actors – that are responsible for national regulations – in establishing the legal framework of areas where GSCs operate and shape culture, values, and social norms that characterize a given context. On the one hand, research on public governance has explored the regulative function and tools of national governments and intra-governmental organizations in addressing social and environmental issues. On the other hand, by leveraging institutional theory, many scholars have thrown light on the necessity of considering the singularity of institutional contexts when a sustainability rule is applied (Castaldi et al., 2023; Husted, Montiel, & Christmann, 2016; Kim et al., 2013; Tan, 2009).

Formal Mechanisms in Public Governance

Formal mechanisms in public governance refer to the regulatory tools (i.e., national laws and international agreements) that public actors leverage to *control* the implementation of sustainability practices in GSCs. Increasingly, society expects governments to promote a sustainable approach in worldwide production networks through the laws they formulate

(Brammer & Walker, 2011). Institutional economists argue that, due to their coercive nature, rule and law systems are the only institutions able to control the utilitarian logic of individuals and firms. Economic historians recognize the state as the primary source of coercion and entrust national political systems to design regulatory frameworks to guide societies to observe social and environmental requirements (North, 1990).

Since national legislation is geographically bounded, intergovernmental organizations are increasingly called to set the "rules of the game" for economic exchanges across countries. They should ensure legal and social order, reduce poverty, inequality, and corruption, and improve market competitiveness and property rights protection. In this regard, some studies (Avetisyan & Ferrary, 2013; Buhmann, 2016) explore how public governance can shape sustainability issues through instruments provided by intergovernmental organizations (e.g., the UN). The revisions to the Organization of Economic Cooperation and Development Guidelines for Multinational Enterprises (OECD, 2011) and the EU's 2011 Communication on Corporate Social Responsibility are clear examples of how the UN is supporting "public regulators to streamline and expand norms on responsible business conduct" (Buhmann, 2016: 708).

Global intergovernmental agreements have been advanced over time to reduce the impact of climate change. Among these, the most famous include the Montreal Protocol, the United Nations Framework Convention on Climate Change, the Kyoto Protocol, and the Paris Agreement. Since 2007, the Intergovernmental Panel on Climate Change has represented an essential tool for governments to assess greenhouse gas emissions' consequences and potential risks. Those emissions are mainly attributed to the operations of MNEs and GSCs. More recently, in 2015, the United Nations demanded governments' cooperation and coordination to adopt the 2030 Agenda and contribute actively to reach the 17 SDGs. As a result, national governments are increasingly urged to adopt international principles within their legislations to encourage a shared action to contrast climate change, extreme poverty, land degradation, and many other goals for the planet and social protection. Considering the institutional variety that distinguishes the international context, the implementation of a global sustainable approach is of paramount relevance. Indeed, informal mechanisms (such as national culture and social norms) may be crucial for the effectiveness of sustainability policies, and accordingly, they should receive more attention. Additionally, recent national regulatory efforts toward sustainability are emerging. By "rethinking" the role of states in political Corporate Social Responsibility, Schrempf-Stirling (2018) argues that states can extend their jurisdiction with "long arm" laws.

Extant literature offers contrasting opinions concerning the national governments' regulatory efforts to promote sustainability. Some scholars highlight the eroded power of states and call attention to democracy deficits, institutional voids, public regulatory gaps, and weak public regulations (Scherer et al., 2014; Wagner & Seele, 2017), especially in developing countries (E. Ite, 2004). On the contrary, other studies underscore that states play a central role in regulating sustainable business practices even beyond their jurisdiction; Schrempf-Stirling (2018) suggests a "catalytic role" for governments in "pooling complementary capabilities of business, state, and civil society actors" (Reinecke & Ansari, 2016: 321). Correspondingly, research on this topic shows the extent to which sustainability issues are delegated to international legalization and how the internationalization of firms and markets affects national public settings, requires states to intervene, and shapes institutional contexts toward global sustainability (Laudal, 2010).

Informal Mechanisms in Public Governance

Informal mechanisms in public governance *influence* institutional contexts and should be considered to achieve sustainable goals in GSCs. Informal mechanisms include cultures, values, and social norms that are unique from country to country. Castaldi et al. (2023: 124) claim that the effectiveness of GSCs' sustainability strategies depends on suppliers' institutional contexts and conceptualize "glocal governance" as a governance approach able to balance "standardized issues of global concerns with interpretation and resolution in a locally sensitive manner with a profound understanding of local contexts." As early as 1998, Epstein and Roy called for the need to "[think] global but act local." Therefore, sustainability regulations in GSCs should guarantee a "contextual fit" and acquire local legitimacy (Argandoña & Hoivik, 2009; Castaldi et al., 2023; Husted et al., 2016; Rathert, 2016; Reimann et al., 2012). For instance, Huq et al. (2014) criticize a misalignment between Western codes of conduct and the suppliers' developing countries' cultural and socio-economic contexts. Some scholars investigate the regulatory efforts of the social governance system and unveil limits in their implementation (Fransen & Kolk, 2007; Graz, Helmerich, & Prébandier, 2020; Lund-Thomsen & Nadvi, 2010). Developing countries perform more sustainable behaviors when they participate in the formulation process as standard-setters rather than standard-takers, as this helps standards become "socially embedded" in their institutional environments. While Soundararajan et al. (2018) explore the role of "local sourcing agents" that bridge western buyers with local suppliers by operating locally and spanning national boundaries.

Drawing on studies regarding the aporias of justice, Rasche (2010) shows the limitations of applying global sustainability standards. By stating that justice cannot be authentic and identifying "the impossibility of a universal rule to stand in for justice" (2010: 280), similarly, Rasche argues that sustainability rules cannot be universal; instead, they need a "fresh judgment" that considers the "singularity of the context" in their application. As Rasche claims: "fresh judgments require modifying/extending/supplementing the standard in the spirit of the standards" (2010: 288). Therefore, global and international standards can promote authentic corporate responsibility only if the unique nature of the context, with its connotations, is considered and respected. As a result, the consideration of national institutional contexts in which GSCs operate and how they affect their activities is crucial for a deeper understanding.

The Interplay of Formal and Informal Mechanisms within Public Governance

National laws and international agreements can impose sustainability requirements in legal jurisdictions. However, due to the complexity and the wide range of sustainability issues, problems of uncertainty, sovereignty, and contracting costs can occur and challenge the effectiveness of such rules (Parente et al., 2021). By distinguishing between the time when national law and international agreements are formulated and when such laws and agreements are applied, we note that the interplay between formal and informal mechanisms in the public governance system leads to different results. Initially, public formal rules represent "legally binding obligations" and are precise in their contents (Rotter et al., 2014). However, when public regulations are subjected to an *international legalization* process, they are adopted in multiple institutional contexts, and it may require fitting their contents to all of the institutional distinct characteristics. Accordingly, we discern two different paths in which informal mechanisms (i.e., culture, values, and social norms) are either accommodating or substitutive and lead to *re-regulation* processes.

First, although formal rules are effective, the mismatches and differences across national contexts present loopholes and institutional arbitrage opportunities for MNEs. For instance, Maier and Gilbert (2022) argue that MNEs need to be contextually sensitive to institutional context to address sustainability. It demands them to acquire new knowledge about cultural and social values and collaborate with local actors and institutions. If they overlook these "contextual challenges", they may be not able to perform sustainability and end up caring about self-interests. MNEs could benefit from differences between institutional contexts, circumvent public regulations, and misbehave. In this circumstance, public actors could react by formulating more stringent regulations to constrain firms' misbehavior or continue leaving regulatory voids regarding sustainability issues. It explains how informal mechanisms can enhance or undermine formal ones. In this circumstance, informal mechanisms diverge from formal ones and *accommodate* them "in ways that alter the substantive effects of formal rules, but without directly violating them" (Helmke & Levitsky, 2004: 726).

Second, although formal public rules exist, their application may also be ineffective or not persist over time. Arguably, Delmas and Montes-Sancho (2011) state that normative pressures from governments and, more generally, from societies can have a more persistent effect rather than coercive ones. Therefore, informal mechanisms can be *substitutive* for formal ones and require new rules, such as global standards. In such a case, formal and informal mechanisms converge, achieving the same goals. Helmke and Levitsky (2004: 729) state that informal substitutive mechanisms "tend to emerge where state structures are weak or lack authority," and the actors that employ them "seek outcomes compatible with formal rules and procedures." These actors' accounts describe what is occurring with current international and global *re-regulation paths* that demand to better adapt public regulations to the national institutional contexts, such as the UN's action through the 2030 Agenda.

MNES AND GSCS' SUSTAINABILITY

Our framework builds on the simultaneous consideration of different governance systems and allows us to infer from extant literature the interplay between formal and informal mechanisms. MNEs operate simultaneously in multiple countries across GSCs, collaborate with both social and public actors at the global and local levels (Gereffi & Lee, 2016; Schrage & Gilbert, 2021), and aim to operate with sufficient coherence in all three governance systems described above. Within this framework, MNEs' active role addressing sustainability in GSCs unfolds in three approaches: (a) middle-out; (b) top-down; and (c) bottom-up. In this section, we illustrate the approaches identified and report the main papers that inform these in Table III.

Table III: Main papers informing the MNEs' role in GSCs sustainability

	Top-down approach	Middle-out approach	Bottom-up approach
Definition	MNEs act toward sustainability adapting the private governance system to the public one, supported by social actors	MNEs cooperate with social actors, located in the middle, to act toward sustainability in upstream and downstream directions	MNEs act toward sustainability adapting the public governance system to the private one, supported by social actors
Illustrative references	Alamgir and Banerjee (2019) Buhmann (2016) Eberlein (2019) Hassel (2008) Kim, Amaeshi, Harris, and Suh (2013) Knill and Lehmkuhl (2002) Lock and Seele (2016) Lundan and Cantwell (2020) Scherer, Baumann-Pauly, and Schneider (2013) Schneider and Scherer (2015) Schneider and Scherer (2019) Schrempf-Stirling (2018)	Arya and Salk (2006) Doh, Tashman, and Benischke (2019) Barlow (2022) Cashore (2002) Donaghey and Reinecke (2018) Fougère and Solitander (2020) Fransen and Kolk (2007) Graz, Helmerich, and Prébandier (2020) Haack and Scherer (2014) Islam and van Staden (2018) Jamali and Keshishian (2009) Maier and Gilbert (2022) Perez-Aleman and Sandilands (2008) Reinecke and Donaghey (2015) Sasser, Prakash, Cashore, and Auld (2006) Scherrer (2009)	Alexander (2020) Amaeshi and Amao (2009) Castaldi, Wilhelm, Beugelsdijk, and van der Vaart (2023) Detomasi (2007) Egels-Zandén (2009) Kolk (2005) Lee, Mellahi, Mol, and Pereira (2020) Locke, Rissing, and Pal (2013) Reinecke and Donaghey (2021) van Zanten and van Tulder (2018) Scherer, Palazzo, and Matten (2014)

Analyzing extant literature, the complementarity between the resource and capability endowments of the actors at play in our framework described above becomes apparent and has been used as a conceptual basis for the scrutiny of specific routes through which MNEs intentionally contribute to the interaction between the different governance systems identified earlier. In these dynamics, the *middle-out* approach is related to the number of partnerships between MNEs and social actors (mainly, non-governmental organizations at the global level, and social businesses at the local level). There is a relevant complementarity between the two actors as, on the one hand, social actors usually lack managerial know-how and financial resources that are MNEs' critical endowments. However, on the other hand, social actors possess scientific expertise and deep experience in working with societies and local communities that MNEs need to develop when they operate in host countries (Arya & Salk, 2006). In this approach, MNEs typically adhere as rule-takers and conform to international and global standards set mainly within the social governance. Only subsequently, when MNEs have been identified as legitimate actors through adherence to sustainability standards, can they increase their authority and participate as rule-makers in specific social governance initiatives in which such standards are developed and deliberated upon, alongside social actors.

By leveraging their relations with social actors, MNEs are also able to create bridges between the governance systems illustrated above. In particular, MNEs may adopt:

(i) a *top-down* approach that identifies how MNEs act to adapt the private governance system to the public one, supported by social actors.

(ii) a *bottom-up* approach that identifies how MNEs act to adapt the public governance system to the private one, supported by social actors.

Although MNEs may use their bargaining power to ensure that suppliers adhere to corporate codes of conduct, sometimes this is not sufficient. By adopting a *top-down* approach MNEs aim to adapt their corporate codes of conduct to the host public institutional contexts as well as to the local sustainability challenges suppliers cope with (Distelhorst et al., 2015). This pathway begins by formulating private rules and ends with broadly analyzing national contexts and social and cultural values to refine the codes of conduct to better respond to institutional variety. Not all firms react similarly within a given institutional context: the diffusion of practices may be “affected by the characteristics, not of the propagator, but of the adopting organization” (Scott, 1995: 118). Similarly, the same code of conduct may produce a different outcome if applied in different institutional contexts. As a result, the top-down approach reveals the emerging need for MNEs to develop a more profound knowledge of the host country’s institutional contexts in which their value chains operate (Castaldi et al., 2023). By contextualizing their codes of conduct and collaborating with host public actors (at the national, regional, and local levels) MNEs act to make their sustainability practices socially accepted. In this approach, social actors support MNEs by activating resources and capabilities exchanges with suppliers, especially when social parties are local organizations (e.g., local non-governmental organizations and associations).

MNEs also aim to bridge private and public governance systems adopting a bottom-up approach. Through this approach, MNEs complement or substitute national laws and international agreements addressing sustainability issues. National governments suffer from slow bureaucracy and spatially defined jurisdictions. Furthermore, national laws and international agreements addressing sustainability issues differ worldwide, and the quality of their enforcement in single national settings may be weak or, vice versa, too rigorous to lead recipients to apply them. These aspects leave room for MNEs (frequently with the aid of social actors) to lobby and adopt advocacy campaigns to influence public actors and re-regulate sustainability practices at the national and international levels. At the same time, a purposive aptitude adopted by public actors in delegating regulatory functions to private and social parties has been underscored, calling attention to the possibility of a *"synergistic governance"* system (Lee & Gereffi, 2015). In this regard, governments leave regulatory space to private and social parties who are called to cover roles with increasing political significance toward sustainability goals (Rahim, 2017; Vogel, 2008). This collaboration influences four policy debates: promoting economic efficiency by transmitting information to customers and end-users about the products' quality and specifications (Renard, 2010); addressing global environmental and social issues (Christmann, 2004); creating room for new niches (Manning & Reinecke, 2016); and providing new regulatory tools that integrate and/or substitute the public ones (Locke et al., 2013).

Since deregulation processes or even regulatory voids have led to the problems underlying global sustainability (Scherer et al., 2014), MNEs with social support have promoted sustainability by shaping new governance systems through which they scale collaborations with governments and positively influence environmental and social challenges along GSCs (Voegtlin et al., 2022). Relying on boundary-spanning multinational positions, private and social parties have mobilized resource and capability flows to trigger learning processes regarding environmental and social issues across countries and demanded public actors to provide regulations and funds to invest in sustainability (Scherer et al., 2016).

As a result, MNEs enable governance systems to interact with each other and to mutually adapt towards sustainability, although they move from different action spaces (Leone, Picone, & Mocciaro, 2023) and with different formal and informal mechanisms. Specifically, our framework depicts that MNEs set new sustainability paths to continuously re-adapt governance systems and compensate for the absence of institutional alignment with the evolving sustainability requirements. This argument echoes the concept of sustainability as a "moving target" (Christensen, Morsing, & Thyssen, 2017: 3) and MNEs looking for legitimacy to fit into varying foci, values, and contents across different institutional contexts become a powerful driving force towards reaching higher degrees of sustainability.

RESEARCH AGENDA

Sketching our comprehensive examination of the extant literature on the arena where MNEs play a role in promoting sustainability in GSCs, we propose a structured research agenda to mirror how we have reviewed the extant literature.

Private Governance

First, given the different practices undergirding sustainability (Voegtlin et al., 2022), on the one hand, and the lack of consensus about the link between sustainability practices and corporate financial performance (Clarke & Boersma, 2017), on the other hand, we call for studies that examine the performance effect(s) of each mechanism as reported in our framework on promoting specific sustainability practices and, in the second instance, on MNEs' and partners' financial performance.

Second, a key topic in previous studies is that MNEs operate in multiple nations, often characterized by weak institutional frameworks that are unable or unwilling to incentivize the actors under their influence toward sustainable behaviors (Egels-Zandén, 2009; Kelling et al., 2020; Kolk & Perego, 2010). In these conditions, MNEs may have room to play a more incisive role. Extant literature investigates how host countries influence MNEs' activities and the importance of adapting practices to the institutional context (Aguilera-Caracuel et al., 2012; Argandoña & Hoivik, 2009). Conversely, we still know little about how the home country (or any domestic context) affects the MNEs' room for maneuver on sustainability practices across their GSCs.

Finally, Westermann-Behaylo et al. (2015) talk about "corporate diplomacy" as an "expanded role and responsibilities" that MNEs should perform when they address social and political issues in relatively underdeveloped countries where they operate. During the last decade, many MNEs have extensively integrated the concept of sustainability into their strategies, organizational processes, and investments (Christmann & Taylor, 2001; Muthuri et al., 2012; Scherer, Baumann-Pauly, & Schneider, 2013; Van Zanten, & Van Tulder, 2018). Along this reasoning, we call for studies that investigate how MNEs transfer principles along their supply chains and create rules and incentives to make up for the shortcomings of the legal contexts in which they operate.

Social Governance

First, the tone of the bulk of literature on how social actors contribute to global sustainability "is very sympathetic to civil society" (Bernauer & Betzold, 2012: 65). Then, within GSCs, social actors may play critical roles in indicating objectives and plans for sustainability. However, rooted in neoliberalism (Alamgir & Banerjee, 2019), extant research falls short of considering how public governance affects the arena in which social actors benefit from a regulatory power to foster sustainability, how it monitors their plausible self-interests and may unveil the potential "dark side" of social governance. We hope that future research will accept this challenge.

Second, although the social governance system is considered a source of legitimacy able to mitigate democratic deficit (Mena & Palazzo, 2012), extant studies have yet to identify the specific pragmatic, moral, or cognitive dimensions at play in this form of legitimacy (Suchman, 1995). We hope to stimulate future research to extend knowledge regarding the type of legitimacy social governance systems rest on, if it needs to be supported by all forms of legitimacy, or still if a specific form of legitimacy may "trump" the others. Arguably, understanding how pragmatic, moral, and cognitive legitimacy leads social governance systems to provide sustainability rules is still an area open to inquiry.

Public Governance

First, the framework may constitute a preliminary step to stretch beyond extant cross-country and cross-industry analyses (e.g., Reimann, Rauer, & Kaufmann, 2015). Scholars may consider focusing on a single analysis system to investigate the top-down effects of public governance on a private one and the bottom-up effects of private governance on a public one. For instance, from a public system perspective, focusing on the differences among countries corresponds to a preliminary step to explore how and to what extent countries' economic interconnections affect their sustainability agendas. Scholars may address how and to what extent national economic interconnections affect sustainability practices in different industries.

Second, our paper sheds light on the various possible governance systems engaged and the mechanisms deployed in sustainability challenges. By leveraging our framework, we call for a study that provides a set of conceptual discernments and builds the groundwork that extends the merging and combination of disciplinary traditions (i.e., global value chain approach and comparative capitalism research). Arguably, empirical research may contribute to a better understanding of how sustainability practices differ according to whether MNEs operate in liberal or coordinated market economies (Amaeshi & Amao, 2009).

Finally, our review shows that extant attempts to understand better how MNEs can foster the implementation of sustainable practices once they have strategically handled their GSCs and considered institutional contexts as "restrictions, costs, or hazards" (Jackson & Deeg, 2008: 542). However, shifting the focus from a global perspective to a national one sheds light on how institutional variety across nations provides firms with resources and capabilities to pursue innovation through market and non-market forms of coordination. We challenge the idea of institutions taken as given and relatively stable and illustrate through which type of approach (i.e., top-down or bottom-up) MNEs may recast and redesign institutions towards sustainability (Montiel & Husted, 2009). Therefore, comparing similarities and differences across varieties of capitalism and describing which approach MNEs in their GSCs scattered across different institutional contexts may be more inclined to take constitutes our starting point. Consequently, we call for empirical research to advance knowledge on the issue.

IMPLICATIONS AND CONCLUSION

Theoretical Implications

Our study shows that the shift towards higher degrees of sustainability involves multiple governance systems (i.e., private, social, and public), different mechanisms (i.e., formal and informal), and paths emerging from their interplay. By leveraging the current state of the literature, we also show the arena where MNEs influence sustainability in GSCs. The thesis we advance is that focusing on the single governance system offers a vantage point, but it restricts the overall picture. Extant literature suggests that MNEs develop a "system of meaning that ties the functioning of disparate sets of institutions together" (DiMaggio, 1988: 14). In this study, we show that MNEs are embedded in multiple governance systems that delineate (convergent and divergent) interests and shape identities. In this multifaceted setting, MNEs formulate new sustainability practices and later push their suppliers to adopt them (Alexander, 2020). Further, we argue that MNEs behave simultaneously as rule-takers and rule-makers to ensure the implementation of sustainability practices in their GSCs. In sum, our paper contributes to extant literature in three ways. First, our framework provides a multilevel and interactive view of the governance systems employed to reach global sustainability. Specifically, our framework involves three separate, but complementary governance systems (i.e., private, social, and public) and further identifies that specific formal and informal mechanisms characterize each one. We show that the impact of compliance with such sustainability rules may be ineffective if they "are not socially embedded" (Nadvi, 2008: 340). Accordingly, we need to go beyond the focus on the governance of GSCs alone to consider all the governance systems.

Second, our literature review describes the extant interplay of formal and informal mechanisms in each governance system. Specifically, we advance extant research by discerning attraction and dependence as the main paths regarding the private governance system, identification and authority as the main paths regarding the social governance system, and international legalization and re-regulation as the main paths regarding the public governance system. The identified paths shape new strategies through which private, social, and public actors address sustainability in GSCs.

Third, we inform that MNEs may influence sustainability practices across GSCs by deploying *top-down, middle-out,* and *bottom-up* approaches and involving social and public actors. We explore the mechanisms at play and how they influence each other and determine MNEs' sustainability choices. Differences among regulative, normative, and cognitive national institutions expose MNEs to political hazards and create a set of incentives, constraints, and costs that push firms to differently handle their global value chains in terms of power and value distribution, location, and entry modes (Gereffi & Lee, 2016; Scott, 1995). From this perspective, institutions are variables that may be strategically managed in various ways (Jackson & Deeg, 2008). MNEs weaken the role of traditional institutional settings, recombine them experimentally (e.g., international sustainability standards), and propose new governance systems (e.g., synergistic governance). As a result, we argue that institutional variety can legitimate "diverse forms of coordination, patterns of authority, or governance" (Jackson & Deeg, 2008: 542) and shed light on the foundations of the alternative forms of participative and reflexive governance in sustainability (Scherer & Voegtlin, 2020).

Finally, stretching our framework, we discern the main critical unexplored questions and limitations of extant literature and unveil the most fertile research paths for the future.

Practical Implications

Our framework may increase the policymakers' awareness of the phenomena illustrated and support taking effective action. The design of effective governance systems on behalf of policymakers requires a preliminary comprehension of the multiple embedded layers of institutions at play in the influence of actors' behaviors and their contribution to sustainability. This research promotes the debate on the politicized concept of firm responsibility (Scherer & Palazzo, 2011): firms contribute to global sustainability regulation by making the borders between private and public domains opaque. However, this contribution depends on the institutional context in which firms operate. We participate in the conversation regarding public-private governance arrangements focused on setting global standards (Nadvi, 2008) by disentangling the multiple governance systems at play and shedding light on the way they overlap and influence each other.

Second, this paper has practical implications for supply chain managers who are repeatedly affected by pressures of the home and host country stakeholders to comply with sustainability standards "as shared, authoritative, and recognized reference points at both local and global levels of operation" (Christensen et al., 2017: 1). When supply chain managers decide where to offshore MNE operations, they must choose governance mechanisms to control and influence suppliers, analyze their institutional context, and evaluate the possibility of suppliers' decoupling from the imposed sustainability practices. Studies on Operations and Supply Chain Management emphasize the supply chain managers' role in defining many sustainability practices, e.g., closed-loop supply chain, integrated supply chain, green logistics, and so on (Jia et al., 2019). Sustainability regulations confer codifiability to such practices and accelerate learning and transferring processes for the implementation along the supply chain. Our study informs supply chain managers about the relevance of formal and informal governance mechanisms and various institutional contexts. A practice, if codifiable, is more likely to be transferred, but its contents have to suit suppliers' local requirements to be effectively implemented.

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CHAPTER 2[1]

HOME COUNTRY UNCERTAINTY AND MULTINATIONAL ENTERPRISES' SUSTAINABILITY PERFORMANCE

ABSTRACT

We analyze how home country uncertainty affects multinational enterprises' sustainability performance. Building on institutional economics, we argue that home country uncertainty harms multinational enterprises' sustainability performance because it creates financing constraints, inducing MNEs to allocate resources and attention to compensate for low-quality institutions and restricting their focus on sustainability. However, we also propose that investing in host countries that provide fiscal arbitrage (i.e., tax havens) weakens this relationship because leveraging fiscal activities frees up resources that help MNEs reduce financing constraints, improving their sustainability performance. Finally, we propose that the availability of financial resources in firms alters these relationships because they lessen the contextual financing constraints on sustainability. Analyses of a sample of 835 European MNEs and their subsidiaries worldwide support the hypotheses.

Keywords: financing constraints, financial resources, sustainability, country uncertainty, MNEs, institutional economics

[1] This chapter is coauthored with Alvaro Cuervo-Cazurra.

INTRODUCTION

> *You know retail and manufacturing and farming sectors are much more difficult sectors because they have lower profit. So, they don't invest money in programmes where they don't see a distinct return on investment as sometimes diversity and inclusion can be seen as a cost.* (HR Senior Director, 2LMP company[2])

Firms are increasingly recognizing the need to address sustainability. Integrating sustainability into business strategies and activities is no longer just a moral obligation, but it requires "the balance or consistency between the organizational and macro-systems over time" (Bansal & Desjardine, 2014: 72). There is an increasing literature analyzing this topic (see a review in Burritt, Christ, Rammal, & Schaltegger, 2020). This literature has noted that sustainability is affected by the context of operation (Bansal & Bogner, 2002; Campbell, Eden, & Miller, 2012) as well as its institutions (Doh & Guay, 2006; Marano & Kostova, 2015; Matten & Moon, 2008). Multinational firms are particularly sensitive to the country context in which they operate and confront sustainability requirements in both home and host countries (Kolk & van Tulder, 2010). Existing literature has investigated whether multinational enterprises' (MNEs) subsidiaries exhibit decoupling from their parent companies, focusing on understanding how the host country context can impact MNEs' sustainability performance (Campbell, Eden, & Miller, 2012; Huq & Stevenson, 2020). However, there is a need for additional research on the role of the home country context, especially in terms of the financial ability of firms to undertake sustainability. Firms investing in sustainability need to allocate dedicated resources to improve efficiency and long-term business resilience (Bansal & Desjardine, 2014; Sharma & Vredenburg, 1998) but it can be challenging when home countries create financing constraints (Chacar, Newburry, & Vissa, 2010).

[2] This quote comes from the data collected during the interviews conducted in the case study of Chapter 3.

Hence, we contribute to understanding contextual influences on sustainability by analyzing how home country uncertainty affects MNEs' sustainability performance. Drawing upon institutional economics (North, 1990; Williamson, 1989), we argue that home country uncertainty harms MNEs' sustainability performance. The reason is that home country uncertainty induces MNEs to allocate resources and attention to navigate and compensate for low-quality institutions, creating limitations on their focus and contextual financing constraints on their investments in sustainability. As a result, their sustainability performance suffers. However, we also propose that MNEs investing in countries that provide fiscal arbitrage (i.e., tax havens) weaken this relationship. The reason is that these firms can leverage fiscal opportunities that free up resources, helping them undermine financing constraints at home and subsequently improve their sustainability performance. Finally, we argue that the availability of financial resources in firms alters these relationships, as they reduce the contextual financing constraints on sustainability.

We test our arguments on a sample of 835 European MNEs with subsidiaries dispersed worldwide; we use European firms because they come from various countries with varying degrees of institutional development and uncertainty. We find that home country uncertainty has a negative relation with MNEs' sustainability performance. We also find that home country uncertainty is positively related to fiscal arbitrage, which is positively related to sustainability performance. Finally, we find that firms' financial resources weaken the negative relationship between home country uncertainty and sustainability performance.

These ideas and findings contribute to two areas of research: sustainability strategy and its analysis of contextual influences on sustainability performance, and institutional economics and its study of the role of uncertainty in investment. In terms of topic, we contribute to the literature on sustainability strategy (Matten & Moon, 2008) and analyses of its contextualization (Bansal &

Bogner, 2002; Campbell, Eden, & Miller, 2012) by discussing the importance of home country uncertainty on sustainability in MNEs. There is some debate on the role of the home country in sustainability, with some arguing that it has a positive impact (Marano, Tashman, & Kostova, 2017) and others claiming the contrary (Surroca, Tribó, & Zahra, 2013). We contribute to this debate by explaining how home country uncertainty harms sustainability performance, and how firms that engage in fiscal arbitrage can compensate for this and improve their sustainability performance. Additionally, we bring the importance of financing constraints (Fazzari, Hubbard, & Petersen, 1988) into the discussion of sustainability and present it as part of the firm's sustainability strategy and subject to the requirements that other investments have. Finally, by analyzing a sample of firms in Europe, we extend knowledge of previous research that was typically based on either advanced (Pedersen & Gwozdz, 2014; Scholtens & Sievänen, 2013) or emerging countries (Reimann, Ehrgott, Kaufmann, & Carter, 2012).

Second, we contribute to studies on institutional economics (North, 1990) by unpacking the complex interplay between home country uncertainty, financing constraints, and sustainability. We highlight the importance of uncertainty created by low-quality institutions (Djankov et al., 2022; Khanna & Palepu, 2010) in the home country on the ability of the firm to invest and achieve sustainable performance. Complementing the traditional focus of institutional economics of analyzing how uncertainty affects the decision to make or buy (Williamson, 1989), we focus on how uncertainty affects the firm's ability to invest and thus improve its sustainability performance. Therefore, we bring the importance of financing constraints posed by the home country (Campello, Graham, & Harvey, 2010; Lamont, Polk, & Saaá-Requejo, 2001) and how they affect MNEs' conduct and their sustainability performance.

Additionally, these ideas also have important practical implications for managers. We explain that managers of MNEs in home countries with high levels of uncertainty may not be able to improve the sustainability performance of their firms as much as managers in countries with less uncertainty because of the contextual constraints on investment. However, they can bypass these constraints by engaging in fiscal arbitrage and enhancing the firm's sustainability performance. When managers operate in countries where sustainability is hard to achieve, they can move their firms' activities and operations abroad to benefit from fiscal differences across home and host countries. Despite the negative view, investing in tax havens has a silver lining.

THEORY AND HYPOTHESIS DEVELOPMENT

Institutions and Sustainability

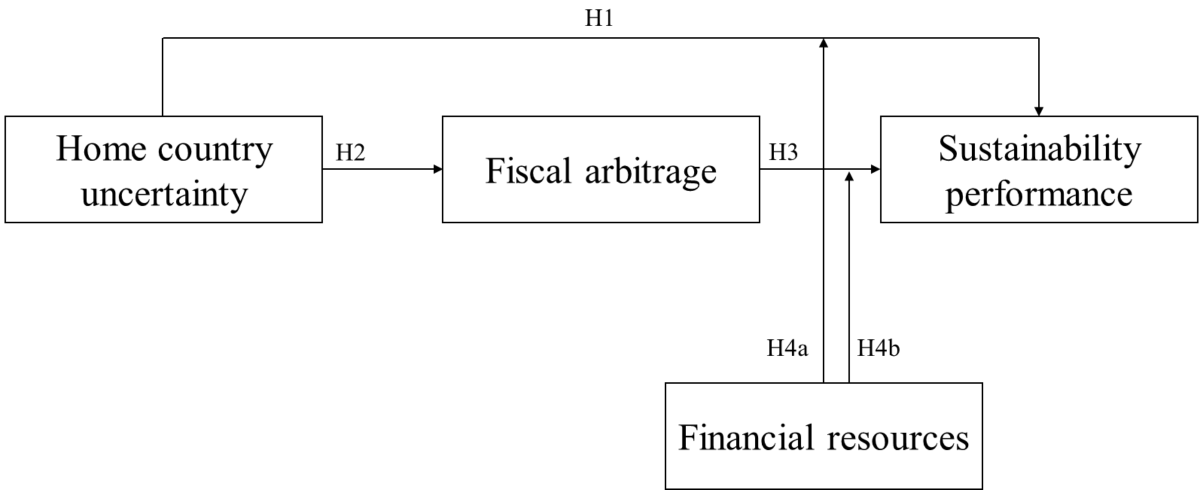
We leverage insights from institutional economics (North, 1990; Williamson, 1989) to examine how home country uncertainty affects MNEs' sustainability performance. Formal and informal institutions influence firms' behavior, strategy, and, ultimately, their performance (North, 1990). Institutional contexts encompass a range of formal rules, such as laws and regulations, as well as informal norms and practices that shape the business environment. They create a framework within which firms operate and make decisions.

Institutions exhibit variations across countries (Djankov, La Porta, Lopez-de-Silanes, & Shleifer, 2002), and the significance of the home country's institutions is noteworthy in both developed (Porter, 1990) and developing countries (Cuervo-Cazurra & Genc, 2008; Khanna and Palepu, 2010). Countries present different economic, political, and social conditions impacting institutions that may foster or undermine MNEs' roadmap toward sustainability. In general terms, scholars have investigated the impact of institutional voids on MNEs' sustainability performance, exploring how tough economic times pose restrictions that influence firms' sustainability activities

(Bansal, Jiang, & Jung, 2015; Barnett, Darnall, & Husted, 2015). More specifically, some scholars have analyzed how institutional differences guide MNEs' strategy toward resolving specific sustainability issues (Doh & Guay, 2006; Kolk & Perego, 2010). Strike, Gao, and Bansal (2006), for example, note that the same MNE can exhibit both responsible and irresponsible conduct depending on the specific context in which it and its subsidiaries operate; foreign markets represent a diverse spectrum of economic stages, political regimes, and norms, leading to varying assessments of sustainability. Other scholars discuss the political structures as essential factors that affect the firms' decision-making processes related to sustainability issues and the related monitoring and compliance systems (Doh & Guay, 2006; Kolk & Van Tulder, 2010).

Figure 1 illustrates our theoretical framework. First, we posit that uncertainty in the home country can impose financing constraints on MNEs, leading them to curtail their sustainability performance. Second, we argue that MNEs' capabilities developed at home to tackle uncertainty enable them to engage in arbitrage activities, manage fiscal differences between home and host country contexts, and exploit opportunities. These fiscal benefits would allow MNEs to overcome financing constraints at home and enhance their sustainability performance. Finally, we argue that a firm's financial resources alter the relationship between home country uncertainty and sustainability performance. Specifically, we predict that a firm's financial resources weaken the negative relationship between home country uncertainty and MNEs' sustainability performance, and we propose that financial resources strengthen the positive relationship between MNEs' fiscal arbitrage and their sustainability performance.

Figure 1: Framework



Home Country Uncertainty and Sustainability Performance

Uncertain country contexts are characterized by significant levels of volatility and instability in various aspects that involve their political, economic, social, or legal systems (Ahir, Bloom, & Furceri, 2022; Cuervo-Cazurra, Ciravegna, Melgarejo, & Lopez, 2018; Hanousek, Shamshur, Svejnar, & Tresl, 2021). The factors contributing to uncertainty may include limited rule of law, weak institutions, inconsistent policies, or unpredictable regulatory environments (Díaz-Díaz, López-Iturriaga, & Santana-Martín, 2022; Doh, Rodriguez, Uhlenbruck, Collins, & Eden, 2003; Engau & Hoffmann, 2011; World Bank, 2019). Therefore, the concept of uncertainty can be vast and varies across countries. The level of uncertainty in a country can be reflected in the minds of consumers, managers, and governments, who are called upon to make decisions that can be influenced by unexpected events such as regulatory changes, wars, and elections. Although uncertainty is more prominent in developing and emerging countries, it is also present in more advanced countries. For instance, Ahir et al. (2022) notes that uncertainty is more synchronized in advanced countries, experiencing abrupt spikes in these economies because they tend to move together.

Uncertainty conditions can challenge firms as they face more pronounced financing constraints. Financing constraints include limited access to external financing, increasing borrowing costs, and difficulties in renewing or initiating a credit line (Campello et al., 2010). All these factors hamper MNEs' ability to invest and may constrain their investment decisions in sustainability and undermine their sustainability performance. Sustainability requires dedicated investments, including innovation and developing new products, services, and processes (Schaltegger & Wagner, 2011). Allocating resources to research and development enables firms to explore and invest in sustainable technologies, materials, and business models (Chakrabarty & Wang, 2012). It supports the creation of innovative solutions that can contribute to environmental protection, resource efficiency, and social well-being, enhancing a firm's sustainability performance (Eccles et al., 2014).

We propose that MNEs based in uncertain contexts are affected by financing constraints that limit their contribution to sustainability. Financing constraints are "frictions that prevent the firm from funding all desired investments" (Lamont et al., 2001: 529). MNEs dealing with uncertainty at home are generally financially constrained. This means they may face credit constraints when they encounter difficulties borrowing funds from financial institutions or investors (Campello et al., 2010). Uncertain country contexts present low market demand or lack of secondary market that limits firms from transforming their assets into cash to gain the liquidity needed to fund investments (Lamont et al., 2001).

Uncertain contexts limit the financial resources available to firms. For instance, country uncertainty can make it difficult for firms to access capital from financial markets. Investors may face high monitoring costs in uncertain contexts, reducing willingness to invest or fund MNEs operating in those regions (Ahir et al., 2022; Ramamurti, 2004). Additionally, uncertainty often leads to higher perceived risk, translating into increased borrowing costs for MNEs. Creditors may require higher returns or impose stricter terms and conditions, such as higher interest rates or collateral requirements, to compensate for the perceived risk (Serven & Solimano, 1993). Uncertain contexts may be characterized by frequent regulatory changes and unpredictable government actions that increase MNEs' risk management costs and may affect their financial ability (Julian & Ofori-Dankwa, 2013; Cuervo-Cazurra et al., 2018). Therefore, limited access to capital can constrain MNEs' financial resources for expansion, investment, and day-to-day operations (Tracey & Philipps, 2011). Additionally, the high cost of capital in uncertain contexts weakens their ability to raise funds at favorable terms (Madhok & Keyhani, 2012). These factors can challenge MNEs to manage their resources effectively and restrict their financial ability to invest in new projects (Madhok & Keyhani, 2012; Ramamurti, 2004). Financing constraints curb a firm's investment capacity by restricting its ability to acquire the necessary financial resources due to disparate reasons such as inability to borrow, illiquidity of assets, or failure to issue equity.

As a result, MNEs from home countries with high uncertainty face contextual financing constraints. They may not undertake all desired investment projects, leading to a potential mismatch between investment opportunities, such as sustainability investments, and available resources. For example, firms need to allocate financial resources to build internal expertise in fostering sustainability. This can include hiring sustainability professionals, establishing sustainability teams or departments, and providing employee training (Bansal, 2002). Still, firms engage with various stakeholders, including employees, customers, suppliers, communities, and investors, to address sustainability goals (Lumpkin & Bacq, 2019). Firms may need to allocate resources to stakeholders' communication, consultation, and collaboration (Perrini & Tencati, 2006). Firms from uncertain contexts may be forced to devote limited resources to improve their productivity and deal with the costs of operating in countries with unreliable specialists and suppliers, limiting their ability to incorporate stakeholders' demands on their investments and thus reducing their sustainability performance. These arguments support the following hypothesis:

Hypothesis 1: *Home country uncertainty is negatively related to MNEs' sustainability performance.*

Home Country Uncertainty, Fiscal Arbitrage, and Sustainability Performance

However, we propose that MNEs can get around the contextual financing constraints imposed by the uncertain home country by undertaking fiscal arbitrage activities and exploiting fiscal differences between home and host country contexts. These fiscal benefits provide MNEs with new financial abilities that they can devote to address sustainability needs, improving their sustainability performance. We first explain how home country uncertainty drives fiscal arbitrage and how fiscal arbitrage then supports sustainability performance.

MNEs operating in uncertain contexts develop uncertainty management capabilities and become "flexible, adaptable and resilient (…) to manage uncertainty in foreign markets regarding the application of rules and regulations" (Cuervo-Cazurra et al., 2018: 210). When they experience uncertainty at home, they are more likely to identify and exploit uncertainty and ambiguities in host countries that make arbitrage possible (Regnér & Edman, 2014). Arbitrage is a strategic response that MNEs implement when they leverage boundary-spanning positions and exploit institutional differences across countries to pursue their interests (Perkmann, Phillips, & Greenwood, 2022). Therefore, the MNEs' presence across multiple countries, on the one hand, and the uncertainty management capabilities they develop at home (Cuervo-Cazurra et al., 2018), on the other hand, enable MNEs to identify opportunities to engage in arbitrage activities in host countries.

Institutional arbitrage refers to firms' participation in activities that leverage the differences in institutional contexts to exploit opportunities (Gaur & Lu, 2007; Regnér & Edman, 2014; Perkmann et al., 2022). Building on this idea, we introduce the concept of fiscal arbitrage to refer to MNEs that, setting subsidiaries in host countries with high levels of secrecy (i.e., offshore financial centers, also known as tax havens), exploit opportunities from fiscal differences between home and host country contexts (Jones & Temouri, 2016; Sikka & Willmott, 2010).

MNEs from uncertain countries may be more inclined to explore fiscal arbitrage opportunities for several reasons. These countries typically grapple with regulatory instability and feeble legal frameworks, resulting in inconsistent tax law enforcement. Consequently, home country uncertainty can incentivize MNEs to exploit regulatory gaps and loopholes to curtail their tax burdens. In this quest for fiscal efficiency, MNEs originating from uncertain countries seek some advantage that makes them more competitive than their rivals. Strategically managing funds through low-tax jurisdictions allows these MNEs to save financial resources for new investments, lower prices, or expand their plans.

In sum, we argue that home country uncertainty enables MNEs to manage differences across countries where they operate better. In doing so, these MNEs are better placed to engage in fiscal arbitrage and benefit from them. Thus, we hypothesize that:

Hypothesis 2: *Home country uncertainty is positively related to MNEs' fiscal arbitrage abroad.*

Additionally, MNEs from uncertain countries that engage in fiscal arbitrage can generate the funds needed to invest in sustainability, improving their sustainability performance. Firms affected and restrained by their external contexts engage in arbitrage activities to maneuver constraints and acquire new financial resources (Ghemawat, 2007; Regnér & Edman, 2014). In turn, additional financial resources influence the firm's ability and willingness to undertake new investment projects, such as investing in sustainability. Investments in sustainability improve their sustainability performance. For instance, driving investments in sustainable technologies (e.g., energy-efficiency facilities) may benefit from a firm's smaller environmental footprint. Similarly, committing financial resources to attain more stringent sustainable certifications enables the development of products and services that resonate more profoundly with environmentally conscious consumers, further bolstering the firm's sustainability performance.

Fiscal arbitrage allows MNEs to exploit differences in fiscal regulations, tax rates, and other financial incentives across countries' jurisdictions. MNEs can strategically allocate their profits at more favorable fiscal conditions by establishing subsidiaries in host countries with high financial secrecy and engaging in tax optimization practices. This can result in minimizing firms' tax burdens, benefiting from significant cost savings, and optimizing financial resources. Therefore, fiscal arbitrage allows MNEs to acquire new financial abilities, empowering them to invest in social and environmental initiatives and enhance their sustainability performance. Corporate taxes affect firms' investment decisions by altering the cost of investment and the amount of cash available to allocate to new investment projects (Summers, Bosworth, Tobin, & White, 1981). When corporate taxes decrease, firms may be encouraged to undertake new investments to enhance their growth, profitability, or sustainability. MNEs shifting profits to their subsidiaries located in countries characterized by high levels of secrecy facilitate the improvement of their financial resources. MNEs may allocate more financial resources to the development of new processes, practices, and technologies addressing sustainability as firms increase their involvement in social and environmental initiatives when their resources increase (Surroca, Tribó, & Waddock, 2010; Waddock & Graves, 1997).

In sum, we propose that MNEs based in uncertain country contexts benefit from fiscal arbitrage, allowing them to reduce their financing constraints and allocate more resources toward sustainability. As a result, MNEs may be more likely to enhance their sustainability performance. These arguments support the following hypothesis:

Hypothesis 3: *MNEs' fiscal arbitrage abroad is positively related to MNEs' sustainability performance.*

Financial Resources and the Relationship between Home Country Uncertainty and Sustainability Performance

The availability of financial resources in the firm has a crucial impact on the ability of MNEs to achieve sustainability. Having excess financial resources enables a firm to undertake not only operational investments like marketing, technology, and operational improvements but also sustainability investments that enhance their social contract and sustainability performance. This is a direct relationship for which we do not offer a formal hypothesis, as we are interested in analyzing financial resources' role in the relationship between home country uncertainty and sustainability performance.

We propose that financial resources weaken the negative relation between home country uncertainty and sustainability performance. MNEs with a solid financial base are better equipped to overcome financing constraints in their home country context (Paeleman & Vanacker, 2015). These financial resources enable them to allocate adequate funds towards sustainability and make meaningful contributions to their sustainability performance. The reason is that sustainability requires dedicated financial resources from MNEs. Sustainability demands the need for collaboration with external actors (Lumpkin & Bacq, 2019), the development of innovative capabilities (Schaltegger & Wagner, 2011), the reorientation toward a long-term paradigm (Bansal & Desjardine, 2014; Busch, Bauer, & Orlitzky, 2016) and the modification of operational processes (Eccles, Ioannou, & Serafeim, 2014). Additionally, sustainability demands a shift towards a long-term approach. MNEs need to move beyond short-term profit-seeking and prioritize sustainable outcomes over immediate gains. MNEs from home countries with high uncertainty that have financial resources can more easily get around contextual financial constraints and allocate resources toward sustainability. In doing so, MNEs expand their investment opportunities and enhance their sustainability performance (Froot, Scharfstein, & Stein, 1993; Hubbard, 1997). Their financial ability would permit them to make long-term investments and commit to sustainability despite the uncertain home context. Based on these ideas, we hypothesize that:

> **Hypothesis 4a**: *Financial resources weaken the negative relationship between home country uncertainty and MNEs' sustainability performance.*

Finally, we argue that financial resources strengthen the positive relationship between fiscal arbitrage and sustainability performance. Financial resources can also enhance the ability to manage the fiscal arbitrage of the firm, as the MNE has a broader financial base on which to build its investments (Law & Mills, 2015). MNEs possessing a solid financial basis have more flexibility in allocating funds for different purposes. This means they can allocate a portion of their financial resources towards fiscal arbitrage strategies while dedicating a separate pool of resources for sustainability investments. Engaging in fiscal arbitrage may be complex and involve significant costs such as consulting and compliance expenses (Clausing, 2009; Devereux, Lockwood, & Redoano, 2008). Identifying and understanding multiple fiscal systems, regulations, and incentives across countries requires extensive analysis and expertise (Huizinga & Laeven, 2008). Therefore, MNEs need financial resources to involve tax experts and consultants to design effective fiscal arbitrage strategies that yield benefits, ultimately enhancing their sustainability performance. MNEs possessing an initial solid financial basis have more flexibility in allocating funds for fiscal arbitrage activities and improving investments in sustainability and related sustainability performance. Hence, we hypothesize that:

> **Hypothesis 4b:** *Financial resources strengthen the positive relationship between fiscal arbitrage abroad and MNEs' sustainability performance.*

RESEARCH DESIGN

Sample and Data Sources

We tested our hypotheses on a sample of 835 European MNEs. We chose Europe as the locus of our research for several reasons. First, Europe presents a multivariate scenario reflecting an ample range of countries with varying degrees of institutional development and uncertainty. Studies have examined the role of the country context on firms' sustainability in Nordic European countries or developing economies (Pedersen & Gwozdz, 2014; Reimann et al., 2012; Scholtens & Sievänen, 2013), and we complement these with the analysis of a wider diversity of countries throughout the European region. Second, European countries possess a leadership role in establishing and fostering ESG policies to address sustainability (BloombergNEF, 2021). Europe's commitment to sustainability is strictly characterized by a high degree of coordination in regulation that ensures consistency and harmonization in implementing ESG policies throughout the region (ING, 2023).

We selected MNEs headquartered in Europe and collected data from the Refinitiv Database. Specifically, we gathered data about public firms operating in the Industrial, Technology, and Basic materials sectors according to the TRBC classification proposed by Refinitiv, based in Europe, and owning subsidiaries worldwide. We obtained a dataset of 4,272 MNEs. We refined our sample by removing those MNEs who do not disclose ESG scores as they serve as a measure of sustainability performance, which aligns with the scope of our study. We obtained a final sample of 835 MNEs from 20 home countries with 45,284 subsidiaries worldwide from 2018 to 2020.

Variables and Measures

Table I summarizes the variables, measures, and data sources used in this study.

Table I: Variables, measures, and sources

Variables	Measure	Source
Firm's sustainability performance	ESG score of the multinational	Refinitiv database
Home country uncertainty	Factor analysis of six indicators: Accountability of governance; political stability and absence of violence in the country; effectiveness of government; quality of regulation; rule of law; control of corruption	World Bank's World Development Indicators
Firm's fiscal arbitrage	A weighted average of the number of subsidiaries a multinational possesses in a country and the score of the Financial Secrecy Index (FSI) of the country	Tax Justice Network database for FSI and Refinitiv Database for subsidiaries
Firm's financial resources	Equity multiplier: (Debt + Equity)/Equity	Refinitiv database
Firm's capital expenditure	Research and development expenditures divided by total sales (millions)	Refinitiv database
Firm's profitability	Ratio EBIT (Earnings before interests and taxes) to assets (millions)	Refinitiv database
Firm's size	Total assets (millions)	Refinitiv database
Home country's economic development	GDP per capita of the multinational's home country (millions)	World Data Bank
Home country's tax rate	Corporate tax rate of the multinational's home country	World Data Bank
Home country's economic freedom	Indicator of economic freedom of the multinational's home country	Fraser Institute
Belonging to EU	Bivariate indicator if the home country belongs or does not to the EU	Wikipedia
Home country's size	GDP of the multinational's home country (millions)	World Data Bank
Firm's industry	Bivariate indicator of the industry: Basic materials (11 and 21 NAICS sectors), Industrials (31, 32, and 33 NAICS sectors), and Technology (54 NAICS sector)	Refinitiv database
Home country's Europe zone	Bivariate indicator of the European region: North, South, West, East	Refinitiv database

We measure the dependent variable, sustainability performance, using ESG scores, following Drempetic, Klein, & Zwergel (2020). We use the Refinitiv database (previously known as ASSET4) because of its widespread availability and extensive coverage, which has made it a valuable resource for investors and scholars. Boasting a comprehensive dataset that covers over 6000 companies, it has become one of the most used resources for numerous research articles on sustainability (Drempetic et al., 2020). ESG scores range from 0 to 100, with higher scores representing better sustainability performance.

The independent variables of interest are home country uncertainty, fiscal arbitrage, and financial resources. Following Cuervo-Cazurra et al. (2018) that used political risk and corruption as proxies to measure home country uncertainty, we measure home country uncertainty with an aggregate indicator obtained through a factor analysis of the six World Development Indicators (i.e., political stability, control corruption, rule of law, voice and accountability, regulatory quality, and government effectiveness) gathered by the World Data Bank (Kaufmann, Kraay, & Mastruzzi, 2003). Factor analysis is a statistical technique used to identify underlying latent factors or constructs that explain the relationships among a set of observed variables. Factor analysis reduces many variables into a common score by extracting the common variance shared among the observed variables. We create a common score measuring country uncertainty through the factor analysis of the six World Development Indicators. These indicators typically take positive values for countries with less uncertainty and negative values for those with more uncertainty. However, since our purpose of measuring country uncertainty, we inverted the sign of these indicators. This means that we reversed the direction of the scale so that less uncertain countries have negative values and more uncertain countries have positive values. This approach allows us to create a unified measure of country uncertainty where higher values indicate greater uncertainty and lower values indicate less uncertainty.

We measure fiscal arbitrage with a weighted average considering the number of subsidiaries a multinational possesses in a particular country and the country's Financial Secrecy Index (FSI) score. We collect data about MNEs' subsidiaries from the Refinitiv database and host countries' FSI scores from the Tax Justice Network (Cobham, Janský, & Meinzer, 2015). In evaluating whether companies engage in fiscal arbitrage through subsidiaries in certain countries, many studies have traditionally employed lists of tax havens, often utilizing a binary measure (Akamah, Hope, & Thomas, 2018; Jones & Temouri, 2016). However, these lists can be arbitrary and outdated (Jones, Temouri, & Cobham, 2018). As a result, we opt for a more comprehensive and objective approach by utilizing the Financial Secrecy Index (FSI). FSI is a ranking of jurisdictions most complicit in helping firms hide their finances from the rule of law. Therefore, financial secrecy facilitates tax abuse and enables money laundering, and the index identifies the world's biggest government suppliers of financial secrecy (Tax Justice Network). The FSI provides a more nuanced assessment as it considers a broad range of factors, including bank secrecy, company accounts and ownership transparency, administrative cooperation, and international exchange of financial information. By incorporating 15 indicators, the FSI generates a secrecy score that positions each jurisdiction on a spectrum from complete financial transparency (score of 0) to complete secrecy (score of 100). This approach allows us to capture the varying degrees of secrecy and transparency across countries more effectively.

We use the firm's leverage as a proxy for financial resources (Bates, Kahle, & Stulz, 2009; Li, 2011). While we recognize that the ideal approach would involve direct measures, such as assessing cash on hands (Vanacker, Collewaert, & Zahra, 2017) or net current assets (Peng, Li, Xie, & Su, 2010), unfortunately, such specific data is unavailable to us. Consequently, we resort to an indirect measure by employing the equity multiplier measured as the sum of total debt and total equity divided by total equity (Almazari, 2012; Singapurwoko & El-Wahid, 2011). In using this measure, unfortunately, our data do not discern financial debt from accounting payables.

Additionally, we control other firms, industry, and country variables influencing sustainability performance. Concerning the firm level, we consider three control variables. First, we control for firm size, measured by the total assets, because larger firms may have more resources to address sustainability (Drempetic et al., 2020; Gallo & Christensen, 2011). Second, we control the firm's level of capital expenditure measured through the ratio of the research and development expenditures to total sales. Capital expenditure can be directed towards upgrading or replacing outdated equipment and technologies with more sustainable alternatives (Hussain, Rigoni, & Orij, 2018). Third, we control for firm profitability measured by EBIT divided by total assets. We control for the industry of the firm using three types of industry sectors according to the TRBC classification in Refinitiv, i.e., Basic Materials (11 and 21 NAICS sectors), Industrials (31, 32, and 33 NAICS sectors), and Technology (54 NAICS sector). Different industry sectors face unique environmental and social challenges, which can influence MNEs' sustainability performance (Drempetic et al., 2020).

Concerning the country, we consider five control variables. First, we control the European zone of the firm's home country (North, South, West, East). Factors such as regional regulations, cultural norms, market dynamics, and availability of resources can vary across European zones, influencing the firm's sustainability performance (Kolk & Perego, 2010). Second, we control if the firm's home country belongs to the European Union and, therefore, whether it is subject to European regulations promoting sustainability. Third, we control for the corporate tax income rate of the firm's home country. The tax system and corporate tax income rates in a particular country can influence the incentives and motivations for MNEs to transfer their finances to subsidiaries in countries with more favorable tax regimes (Desai, Foley, & Hines, 2006). Fourth, we control economic freedom, expressing the fundamental right of people to manage their labor and property. In an economically free society, people can invest however they desire. We collected data from the Fraser Institute database. Lastly, we control a country's size and economic development by collecting GDP and GDP per capita data from the World Data Bank.

Method of Analysis

To test the hypotheses, we fit two linear regression models: the Mediator model (fiscal arbitrage) and the Output model (sustainability performance). We carry out analyses using Stata statistical software.

As the Tax Justice Network reports data on financial secrecy every two years, our mediator's measurements correspond to 2020. Under the assumption that this indicator remains relatively stable in the short term, we conduct a pooled ordinary least squares (OLS) analysis in a panel data set spanning three years, from 2018 to 2020. The pooled OLS corresponds to running OLS on the observations pooled across the firms of our sample (i) and 2018-2020 (t) (Wooldridge, 2010). This analysis maintains the constancy of our mediator variable while accounting for fluctuations in all other variables over the three years. Moreover, we enriched the pooled OLS analysis by including fixed effects for the industry and the Europe zone where firms own their headquarters since they represent two firm attributes that do not vary over time.

As we test whether fiscal arbitrage mediates the relationship between home country uncertainty and sustainability performance, when discussing mediation in statistical analysis, the mediation may be total or partial according to the different degrees to which the mediator variable accounts for the relationship between the explanatory variable and the response variable. Specifically, entire mediation occurs when the mediator variable thoroughly explains the relationship between the explanatory and response variables. In this case, the coefficient of the direct effect of the explanatory variable on the response variable becomes non-significant or zero when accounting for the mediator. Partial mediation occurs when the mediator variable explains some, but not all, of the relationship between the explanatory variable and the response variable (Hayes, 2017). In this case, both the coefficients of the direct effect of the explanatory variable on the response variable and the indirect impact through the mediator are significant. We propose a partial mediation in which home country uncertainty may, directly and indirectly, affect sustainability performance. To consistently interpret the coefficients of our regression models, we scaled them from zero to one hundred of our main variables (i.e., sustainability performance, home country uncertainty, and fiscal arbitrage) and used their log transformation.

EMPIRICAL RESULTS

Descriptive Statistics

We report our sample distinguishing MNEs according to their home country, the related European zone, and the country's uncertainty score in Table II.

Table II: Sample of the study

Country	European Zone	Country uncertainty score	Number of MNEs
Austria	West	-0.711	11
Belgium	West	-0.382	21
Cyprus	South	0.235	5
Denmark	North	-1.021	53
Finland	North	-1.080	79
France	West	-0.125	42
Germany	West	-0.612	109
Greece	South	0.568	3
Hungary	East	0.193	3
Iceland	North	-1.033	3
Ireland	North	-0.731	44
Italy	South	0.329	22
Luxembourg	West	-1.143	17
Netherlands	West	-0.905	33
Norway	North	-1.205	53
Poland	East	0.186	27
Portugal	South	-0.368	2
Spain	South	0.104	19
Sweden	North	-0.985	239
Switzerland	West	-1.112	50
Total			835

Table III presents descriptive statistics of the variables included in the models and Table IV presents their correlations. We carried out the Breusch-Pagan test to verify the OLS linear regression's assumption of homoscedasticity (i.e., all residuals have a constant variance). As heteroscedasticity was present in error terms (*chi2*=56.70, *Prob>chi2*=0.000 for the Mediator model; *chi2*=22.57, *Prob>chi2*=0.000 for the Output model), we used robust standard errors. Furthermore, we detected multicollinearity by computing the variance inflation factor (VIF) for each independent variable, and we verified that any predictor variable is not correlated with the others (*mean VIF* for the Mediator model=1.60; *mean VIF* for the Output Model= 1.76).

Table III: Descriptive statistics

Variables	Observation	Mean	Sd	Min	Max
Sustainability performance	835	3.8476	0.6194	-0.8522	4.5439
Home country uncertainty	835	2.2072	0.9546	-0.3026	4.0885
Fiscal arbitrage	835	3.2529	0.6576	0.7927	4.5385
Financial resources	835	5.3297	52.5592	-23.1525	1478.269
Firm's Capital expenditure	835	0.0223	0.0521	-0.0143	0.5186
Firm's profitability	835	0.0010	0.0110	-0.0004	0.2004
Firm's size	835	19.1180	2.7001	10.5433	26.3027
Home country's economic development	835	0.5481	0.1777	0.1550	1.1737
Home country's tax rate	835	0.2317	0.0484	0.09	0.3443
Home country's economic freedom	835	7.7592	0.2883	6.81	8.49
Home country's size	835	0.3657	0.2586	0.0004	0.9140

Note: Scaled in a limited range from 0 to 100 and natural logarithm transformation of the original values for sustainability performance, home country uncertainty, and fiscal arbitrage. Natural logarithm transformation of the original values of firm's size. Firm's capital expenditure is divided by ten to the power of 10. Firm's profitability is divided by ten to the power of 5. Home country's economic development is divided by ten to the power of 5. Home country's size is divided by ten to the power of 15. Home country's tax rate is divided by ten to the power of 2.

Concerning the descriptive statistics, some details of the key variables warrant analysis. Sustainability performance presents an average score of 3.8476, the narrow standard deviation (0.6194) suggests that MNEs' sustainability performance scores are relatively clustered around the mean. The negative minimum is a consequence of the natural logarithm transformation of original values, as sustainability scores are typically non-negative. The average home country uncertainty score is 2.2072, with a standard deviation of 0.9546. This variable ranges from negative to positive, implying some countries are perceived as more stable (negative scores) and others as more uncertain (positive scores). This is in line with the chapter's focus on the impact of home country uncertainty on MNEs' sustainability performance. The mean fiscal arbitrage score is 3.2529 suggests that on average MNEs engage in fiscal arbitrage. The lower standard deviation (0.6576) indicates less variability among MNEs in this practice. With regard to financial resources, it is important to note the wide range in the variable, with a very high standard deviation (52.5592), indicating substantial heterogeneity in the financial ability of MNEs.

These statistics offer a quantitative backdrop for the analysis of how MNEs adapt their sustainability performance strategies in response to home country uncertainty. The variability in firm size, economic development, tax rate, economic freedom, and home country size depicts the complexity of the operating environments for MNEs and reinforces the need for nuanced, context-specific sustainability strategies

Table IV: Correlation matrix

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
(1) Sustainability performance										
(2) Home country uncertainty	0.076*									
(3) Fiscal arbitrage	0.178*	0.023								
(4) Financial resources	-0.043	0.008	0.026							
(5) Firm's Capital expenditure	0.094*	0.060	0.120*	-0.033						
(6) Firm's profitability	0.020	-0.018	0.051	-0.007	0.332*					
(7) Firm's size	0.103*	0.061	0.077*	0.164*	-0.036	-0.205*				
(8) Home country's economic development	-0.050	-0.674*	0.269*	-0.006	0.042	0.006	-0.029			
(9) Home country's tax rate	0.166*	0.342*	0.284*	0.043	-0.009	0.027	0.119*	-0.313*		
(10) Home country's economic freedom	0.039	-0.375*	0.352*	0.000	0.083*	0.036	0.008	0.599*	-0.194*	
(11) Home country's size	-0.187*	-0.450*	-0.168*	-0.035	-0.047	0.047	-0.066	0.389*	-0.524*	0.109*

Note: * significant at 5%.

Test of Hypotheses

Table V presents the estimated regression coefficients used to test the hypotheses, the relative standard errors, and the *p*-values. Regarding the Mediator model, we represent Model 1a, the baseline containing only the control variables. Model 1b includes control variables and home country uncertainty as the independent variable. About the Output model, Model 2a is the baseline containing only the control variables. In contrast, Model 2b includes control variables and home country uncertainty as independent variables; Model 2c includes control variables, home country uncertainty, and fiscal arbitrage as independent variables; and, finally, Model 2d includes control variables, home country uncertainty and fiscal arbitrage as independent variables and the hypothesized moderation effects.

Table V: Determinants of sustainability performance

	Mediator Model				Output Model							
	Model 1 a		Model 1b		Model 2a		Model 2b		Model 2c		Model 2d	
	Coef. (se)	p-val	Coef. (se)	p-val	Coef. (se)	p-val	Coef. (se)	p-val	Coef. (se)	p-val	Coef. (se)	p-val
Control paths												
Firm's financial resources	0.0004 (0.0001)	0.722	0.00004 (0.0001)	0.698	-0.001 (0.000)	0.022	-0.001 (0.000)	0.023	-0.001 (0.000)	0.019	-0.009 (0.007)	0.194
Firm's capital expenditure	0.793 (0.237)	0.001	0.730 (0.233)	0.002	0.850 (1.423)	0.550	0.922 (1.389)	0.507	0.829 (1.390)	0.551	0.781 (1.389)	0.574
Firm's profitability	-0.320 (0.932)	0.731	0.127 (0.909)	0.889	0.597 (2.770)	0.829	0.096 (2.667)	0.971	0.080 (2.629)	0.976	0.308 (2.652)	0.907
Firm's size	0.006 (0.007)	0.399	0.006 (0.007)	0.379	0.020 (0.007)	0.002	0.020 (0.007)	0.003	0.019 (0.006)	0.003	0.023 (0.007)	0.001
Home country's economic development	0.612 (0.187)	0.001	0.729 (0.182)	0.000	-0.047 (0.182)	0.795	-0.179 (0.206)	0.386	-0.271 (0.206)	0.189	-0.288 (0.206)	0.163
Home country's tax rate	-0.916 (0.932)	0.326	-0.481 (0.930)	0.605	0.331 (0.965)	0.732	-0.156 (0.885)	0.860	-0.095 (0.889)	0.915	-0.097 (0.885)	0.913
Home country's economic freedom	0.222 (0.131)	0.090	0.236 (0.131)	0.072	0.077 (0.091)	0.394	0.061 (0.090)	0.498	0.031 (0.090)	0.732	0.043 (0.091)	0.637
Belonging to EU	0.060 (0.078)	0.441	-0.092 (0.107)	0.389	0.015 (0.064)	0.812	0.186 (0.077)	0.016	0.198 (0.078)	0.012	0.181 (0.078)	0.021
Home country's size	-0.268 (0.087)	0.002	-0.193 (0.092)	0.037	-0.309 (0.096)	0.001	-0.394 (0.094)	0.000	-0.370 (0.094)	0.000	-0.360 (0.094)	0.000
Hypothesized paths												
Home country uncertainty			0.109 (0.045)	0.016			-0.122 (0.051)	0.017	-0.136 (0.050)	0.007	-0.144 (0.050)	0.004
Fiscal arbitrage									0.126 (0.045)	0.005	0.124 (0.047)	0.008
Home country uncertainty * Financial resources											0.003 (0.001)	0.003
Fiscal arbitrage * Financial resources											0.000 (0.002)	0.975
Constant	0.533 (1.110)	0.618	0.040 (1.137)	0.972	2.998 (0.755)	0.000	3.573 (0.738)	0.000	3.568 (0.734)	0.000	3.448 (0.739)	0.000
Observations	835		835		835		835		835		835	
Goodness of fit statistics												
F statistics	50.80		49.09		6.75		6.47		7.14		8.17	
R-squared	0.369		0.374		0.085		0.091		0.103		0.108	
Adjusted R-squared	0.357		0.361		0.067		0.072		0.083		0.086	
Root MSE	0.527		0.526		0.598		0.597		0.593		0.592	

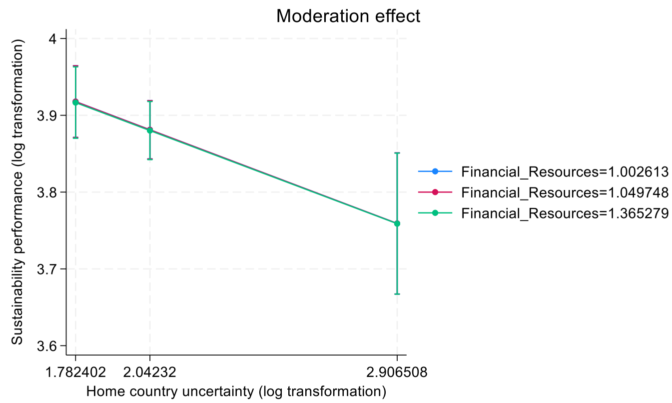
We find support for Hypothesis 1, confirming that home country uncertainty negatively affects MNEs' sustainability performance. If home country uncertainty increases by 1%, MNEs' sustainability performance drops by 14.4%. The coefficient of the direct effect is negative and statistically significant (*B*= -0.144; *p-value*= 0.004).

We also find support for Hypothesis 2, showing that home country uncertainty positively affects the fiscal arbitrage in which MNEs engage in host countries. Specifically, if home country uncertainty increases by 1%, MNEs' fiscal arbitrage increases by 10.9%. MNEs operating in countries with higher uncertainty scores tend to set subsidiaries in countries with high levels of secrecy. The coefficient of this relationship is positive and statistically significant (*B*= 0.109; *p-value*= 0.016)

We find statistical support for Hypothesis 3, in which fiscal arbitrage positively relates to sustainability performance. An increase of 1% in MNEs' fiscal arbitrage causes an increase of 12.4% in their sustainability performance. We find that the coefficient of the effect of fiscal arbitrage on sustainability performance is positive and statistically significant (*B*= 0.124; *p-value*= 0.008). Our results show that mediation is partial and home country uncertainty directly and indirectly affects sustainability performance (Hayes, 2017).

We find support for Hypothesis 4a. The coefficient of the interaction of the leverage with the relationship between home country uncertainty and sustainability performance is positive and statistically significant (*B*= 0.003; *p-value*= 0.003). The positive effect of financial resources on the negative relationship between home country uncertainty and sustainability performance weakens it. It implies that MNEs from uncertain countries are more likely to invest in sustainability if they possess enough financial resources. Therefore, financial resources weaken the negative relationship between home country uncertainty and sustainability performance, allowing MNEs to perform sustainability. In Figure 2, we present the graphical representation illustrating the interaction effect between home country uncertainty and financial resources. We portray the 25th, 50th, and 75th percentiles illustrating the central tendency of the distribution, with extreme values at the tails excluded. As evident from the graph, while an interaction effect is slightly discernible, its magnitude appears to be modest.

Figure 2. Graphical representation of the financial resources' moderation effect



We do not find support for Hypothesis 4b. The coefficient of the interaction of the firm's leverage with the relationship between fiscal arbitrage and sustainability performance is not statistically significant (*B*= 0.000; *p-value*= 0.975).

Robustness Tests

We ran additional analyses to ensure the results were robust; these appear in Table VI. The results discussed have similar support across alternative measures and models.

Table VI: Robustness tests: determinants of sustainability performance

	Model 3 (Different measure of firm's profitability)				Model 4 (Different measure of leverage)				Model 5 (Different measure of home country uncertainty)			
	Mediator Model		Output model		Mediator Model		Output model		Mediator Model		Output model	
	Coef. (se)	p-val	Coef. (se)	p-val	Coef. (se)	p-val	Coef. (se)	p-val	Coef. (se)	p-val	Coef. (se)	p-val
Control paths												
Firm's financial resources	0.00003 (0.0001)	0.771	-0.011 (0.004)	0.004	0.000 (0.000)	0.698	-0.009 (0.007)	0.194	0.000 (0.000)	0.889	-0.0003 (0.008)	0.965
Firm's capital expenditure	0.737 (0.216)	0.001	0.814 (1.225)	0.506	0.730 (0.233)	0.002	0.781 (1.389)	0.574	0.651 (0.237)	0.006	0.754 (1.416)	0.594
Firm's profitability	0.367 (0.130)	0.005	0.813 (0.185)	0.000	0.127 (0.909)	0.889	0.308 (2.652)	0.907	-0.115 (0.878)	0.896	0.916 (2.772)	0.741
Firm's size	0.005 (0.007)	0.478	0.021 (0.006)	0.001	0.006 (0.007)	0.379	0.023 (0.007)	0.001	0.006 (0.007)	0.363	0.025 (0.007)	0.000
Home country's economic development	0.744 (0.180)	0.000	-0.240 (0.213)	0.262	0.729 (0.182)	0.000	-0.288 (0.206)	0.163	1.503 (0.528)	0.005	-0.691 (0.344)	0.045
Home country's tax rate	-0.380 (0.920)	0.679	0.107 (0.849)	0.900	-0.481 (0.930)	0.605	-0.097 (0.885)	0.913	0.037 (1.086)	0.973	-0.034 (0.922)	0.970
Home country's economic freedom	0.229 (0.130)	0.078	0.031 (0.090)	0.732	0.236 (0.131)	0.072	0.043 (0.091)	0.637	0.071 (0.146)	0.627	0.172 (0.106)	0.105
Belonging to EU	-0.094 (0.107)	0.382	0.175 (0.079)	0.026	-0.092 (0.107)	0.389	0.181 (0.078)	0.021	0.217 (0.133)	0.103	-0.100 (0.086)	0.246
Home country's size	-0.191 (0.091)	0.037	-0.361 (0.092)	0.000	-0.193 (0.092)	0.037	-0.360 (0.094)	0.000	-0.231 (0.091)	0.011	-0.281 (0.094)	0.003
Hypothesized paths												
Home country uncertainty	0.109 (0.045)	0.015	-0.142 (0.053)	0.007	0.109 (0.045)	0.016	-0.141 (0.050)	0.005	0.674 (0.349)	0.054	-0.654 (0.185)	0.000
Fiscal arbitrage			0.100 (0.045)	0.027			0.124 (0.046)	0.007			0.135 (0.047)	0.005
Home country uncertainty * Financial resources			0.003 (0.001)	0.002			0.003 (0.001)	0.003			0.139 (0.051)	0.007
Fiscal arbitrage * Financial resources			0.001 (0.001)	0.636			0.000 (0.002)	0.975			-0.002 (0.002)	0.438
Constant	0.070 (1.118)	0.950	3.523 (0.728)	0.000	0.040 (1.136)	0.972	3.439 (0.739)	0.000	1.124 (1.097)	0.306	2.219 (0.795)	0.005
Observations	835		835		835		835		835		835	
Goodness of fit statistics												
F statistics	50.93		10.61		49.09		8.17		50.33		8.80	
R-squared	0.380		0.143		0.374		0.108		0.382		0.111	
Adjusted R-squared	0.367		0.122		0.361		0.086		0.369		0.089	
Root MSE	0.523		0.580		0.526		0.592		0.523		0.591	

Table VI: Robustness tests: determinants of sustainability performance (continued)

	Model 6 (Different measure of fiscal arbitrage)				Model 7 (Different measure of leverage)				Model 8 (Beta model)	
	Mediator Model		Output model		Mediator Model		Output model		Output model	
	Coef. (se)	p-val	Coef. (se)	p-val	Coef. (se)	p-val	Coef. (se)	p-val	Coef. (se)	p-val
Control paths										
Firm's financial resources	-0.007 (0.009)	0.404	-0.002 (0.003)	0.470	0.148 (0.105)	0.158	0.173 (0.858)	0.840	-0.013 (0.009)	0.157
Firm's capital expenditure	21.541 (7.350)	0.003	0.368 (1.366)	0.788	0.718 (0.233)	0.002	0.841 (1.385)	0.544	7.224 (0.989)	0.000
Firm's profitability	-18.964 (9.531)	0.047	0.837 (2.701)	0.757	0.254 (0.909)	0.780	-0.458 (2.496)	0.854	-9.241 (3.166)	0.004
Firm's size	0.052 (0.036)	0.158	0.021 (0.006)	0.001	0.004 (0.007)	0.608	0.020 (0.007)	0.005	0.036 (0.011)	0.001
Home country's economic development	0.294 (0.962)	0.760	-0.241 (0.207)	0.245	0.717 (0.181)	0.000	-0.208 (0.196)	0.289	-0.383 (0.298)	0.199
Home country's tax rate	-17.324 (4.204)	0.000	0.657 (0.908)	0.470	-0.445 (0.927)	0.631	-0.017 (0.891)	0.985	-1.809 (1.308)	0.167
Home country's economic freedom	0.640 (0.482)	0.184	0.052 (0.086)	0.552	0.238 (0.130)	0.068	0.028 (0.089)	0.752	-0.011 (0.166)	0.946
Beloging to EU	-0.827 (0.445)	0.063	0.195 (0.078)	0.013	-0.107 (0.108)	0.326	0.235 (0.079)	0.003	0.303 (0.142)	0.032
Home country's size	-0.015 (0.506)	0.976	-0.354 (0.093)	0.000	-0.186 (0.092)	0.045	-0.354 (0.094)	0.000	-0.542 (0.147)	0.000
Hypothesized paths										
Home country uncertainty	0.604 (0.210)	0.004	-0.155 (0.051)	0.003	0.114 (0.046)	0.013	-0.164 (0.050)	0.001	-0.174 (0.068)	0.010
Fiscal arbitrage			0.333 (0.052)	0.000			0.166 (0.061)	0.007	0.217 (0.054)	0.000
Home country uncertainty * Financial resources			0.001 (0.001)	0.529			0.103 (0.098)	0.294	0.004 (0.002)	0.031
Fiscal arbitrage * Financial resources			-0.006 (0.002)	0.006			-0.193 (0.216)	0.371	-0.000 (0.003)	0.955
Constant	-4.581 (4.334)	0.291	3.439 (0.716)	0.000	0.024 (1.132)	0.983	3.475 (0.755)	0.000	1.685 (0.046)	0.000
Observations	835		835		835		835		835	
Goodness of fit statistics										
F statistics			10.54		48.89		6.30			
R-squared			0.145		0.375		0.105			
Adjusted R-squared			0.124		0.362		0.083			
Root MSE			0.579		0.525		0.593			
LR chi2									187.53	
Wald chi2	182.73									
Pseudo R-squared	0.2286									

First, we test the model for sensitivity to the measures used to operationalize our variables. Hence, we used an alternative measure for firm profitability using ROA (Model 3). Moreover, we used a different measure for financial resources, i.e., the ratio debt-to-equity (Model 4). Additionally, we measured home country uncertainty by using the World Uncertainty Index (Ahir et al., 2022; Model 5). Next, we used an alternative measure for fiscal arbitrage and employed a binary dummy variable to capture whether MNEs have subsidiaries in countries identified as tax havens in the list provided by Dyreng and Lindsey (2009). Specifically, the dummy variable takes a value of zero if MNEs do not have subsidiaries in tax havens and one if they do have subsidiaries in tax havens (Model 6). Next, we used the debt-to-assets ratio as an alternative measure for financial resources (Johnson, 1997; Li & Zhang, 2010; Model 7). Results for Models 3, 4, and 5, do not vary in terms of signs of coefficients, and Hypothesis 1, Hypothesis 2, Hypothesis 3, and Hypothesis 4a are confirmed according to our main findings. While Model 6 and 7 confirm the main hypotheses, i.e., Hypothesis 1, Hypothesis 2, and Hypothesis 3, but results for Hypothesis 4a and Hypothesis 4b vary slightly.

Second, we test whether the results are sensitive to the statistical model for the outcome model, fitting it with a beta regression model (Model 8; Ferrari & Cribari-Neto, 2004). Since the response variable is measured through ESG scores with a limited range (0-100), we divide ESG scores by their maximum to make values belonging to the Beta support in the interval (0,1). Model 8 shows that results remain unchanged, and the hypotheses are confirmed except for Hypothesis 4b, whose coefficient is not statistically significant.

IMPLICATIONS AND CONCLUSION

In this study, we contribute to the debate on how country context affects sustainability and MNEs' conduct to address it. We first propose that contextual financing constraints posed by uncertainty in the home country lead MNEs to engage in fiscal arbitrage and, in turn, contribute to sustainability. As expected, we find that home country uncertainty negatively affects MNEs' sustainability performance. We additionally propose that fiscal arbitrage in which MNEs engage in host countries mediate this relationship, enabling MNEs to acquire additional financial resources, undermine financing constraints at home, and drive sustainability. Specifically, we explain that MNEs set subsidiaries in countries with high levels of secrecy and exploit fiscal differences between home and host countries to acquire new financial resources. In turn, they invest in these to enhance their sustainability performance. These arguments provide empirical support for the idea that MNEs, leveraging boundary-spanning positions and experience in managing country uncertainty, identify institutional differences across countries and exploit them to pursue their interests (Luo & Tung, 2018; Regnér & Edman, 2014). MNEs engage in arbitrage activities as a strategic response to overcome financing constraints and pursue sustainability. Finally, we argue and find that financial resources weaken the negative relationship between home country uncertainty and sustainability. However, our findings do not support the idea that financial resources strengthen the relationship between fiscal arbitrage and sustainability. While we acknowledge the central role of financial resources in the relationship between fiscal arbitrage and enhanced sustainability performance, there may be alternative reasons underlying this relationship. For instance, when MNEs establish subsidiaries abroad, they may encounter incentives or pressures from host countries' stakeholders to enhance their sustainability conduct. Moreover, they might pursue sustainability goals to mitigate potential reputational harm stemming from fiscal arbitrage since an improved sustainability performance can, in turn, bolster their reputation and overall corporate image (Lourenço, Branco, Curto, & Eugénio, 2012).

Theoretical Implications

We contribute to two research areas: sustainability strategy and its study of contextual influences on sustainability performance and institutional economics and its investigation of the role of uncertainty in investment.

First, we contribute to the studies on sustainability strategy (Matten & Moon, 2008) and its analysis of contextualization (Bansal & Bogner, 2002; Campbell, Eden, & Miller, 2012; Julian & Ofori-Dankwa, 2013), enabling a deeper understanding of the relationship between home country uncertainty and sustainability. We argue that sustainability can involve several trade-offs regarding financial resource allocation when MNEs are based in uncertain countries and deal with financing constraints posed by the context. The relationship between MNEs' sustainability performance and their home country context is multifaceted, influenced by several factors such as regulatory frameworks, political landscapes, and societal expectations. As noted in Surroca et al. (2013), stakeholders' expectations within the home country can significantly influence MNEs' sustainability performance, revealing a negative impact on their responsible conduct abroad. Still, Keig et al. (2015) shed light on formal and informal dimensions of the corruption of country contexts in which MNEs operate and how these influence their sustainability behavior. Notably, corruption, political instability, and financing constraints tend to increase the uncertainty of the country's context (Ahir et al., 2022). Uncertainty can make it difficult for MNEs to make long-term investment decisions. When regulations and policies are constantly changing or unpredictable, MNEs may hesitate to commit significant financial resources to new projects or expansions in a particular country. This can hinder their growth and sustainability performance (Julian & Ofori-Dankwa, 2013). Moreover, in countries affected by uncertainty the incentives and institutions fostering sustainability may be weak or absent. Governments may not provide regulations to promote sustainability, or consumers are still less inclined to pay more for sustainable products (Forbes, 2020). By acknowledging the significance of the broader context and gaining insights into the underlying institutional conditions, we demonstrate that uncertainty harms sustainability. Sustainability efforts cannot be treated as a one-size-fits-all, but they need to be aligned with the specific needs, challenges, and opportunities within each country context (Manning, Boons, Von Hagen, & Reinecke, 2012). While firms bear the primary responsibility for deciding to invest in sustainability, it is crucial to acknowledge that the country context in which they operate plays a pivotal role in shaping their sustainability performance.

In this regard, we unveil the significant influence of financing constraints (Fazzari, Hubbard, Petersen, 1988) on the firm's sustainability strategy and investments. These reflect essential consequences for firms' financial ability and, in turn, for their sustainability performance. Financial resources play a crucial role in MNEs' contribution to sustainability (Campbell, 2007; Julian & Ofori-Dankwa, 2013; Waddock & Graves, 1997). However, not all firms have fully grasped the significance of investing in sustainability, particularly those facing more salient and urgent uncertainty challenges affecting their home country. Political risk, unstable economic conditions, and volatile regulatory schemes in uncertain countries potentially impact firms' financial resource availability (Ahir et al., 2022; Delmas & Pekovic, 2015), leading them to prioritize short-term survival and risk mitigation over long-term sustainability efforts (Keig et al., 2015). We show that fiscal arbitrage could be the solution, allowing these firms to optimize financial resources, overcome financing constraints at home, and pursue sustainability. Our findings suggest that country context complements traditional sustainability performance drivers, such as firm resources and capabilities (Sharma & Vredenburg, 1998). Sustainability demands a high degree of context sensitivity, considering the diverse development levels of institutions and political, fiscal, and economic conditions across country contexts. MNEs may effectively align their sustainability strategy with contextual constraints by embracing a context-sensitive approach.

Second, our research also enriches the theory of institutional economics (North, 1990) by providing a comprehensive understanding of the interplay between home country uncertainty, financing constraints, and sustainability performance. Our findings extend beyond the traditional focus of institutional economics, which typically analyzes how uncertainty influences the decision to make or buy (Williamson, 1989). We demonstrate that uncertainty directly affects the firm's capacity to invest and, consequently, its sustainability performance. By delving into this relationship, we reveal that uncertain country contexts pose financing constraints that significantly impact MNEs' conduct and sustainability performance (Campello, Graham, & Harvey, 2010; Lamont, Polk, & Saaá-Requejo, 2001). Managing institutional differences across countries can provide MNEs with new opportunities to enhance their sustainability performance. Country uncertainty incentivizes MNEs to engage in fiscal arbitrage to acquire additional resources and, in turn, pursue sustainability. Specifically, MNEs obtain fiscal advantages by moving their profits to subsidiaries in countries characterized by high levels of secrecy and more favorable tax regimes, and, as a result, they enhance their financial ability to achieve sustainability. Thus, reducing tax payments can help firms improve their sustainability performance. Therefore, our study provides a comprehensive picture of institutions and uncertainty in the context of sustainability by offering valuable insights into the concept of arbitrage in terms of active "exploitation" of opportunities between home and host countries (Luo & Tung, 2018) different from the simple "escapism" from home country constraints (Witt & Lewin, 2007).

Practical Implications

Managers operating in uncertain contexts may hesitate to allocate resources towards sustainability, fearing that their efforts may be undermined by abrupt policy shifts or lack of support. They are demanded to design solutions to overcome the constraints posed by the country context and perform sustainability. Managers may employ fiscal arbitrage and tax optimization strategies to provide MNEs with flexibility in managing tax liabilities and financial operations, which can result in significant cost savings, increased financial ability, and more investment opportunities in sustainability. These strategies aim to optimize firms' tax burdens and increase investment capacity in sustainability. They may include moving operations and profits in jurisdictions with favorable tax regimes, utilizing tax-efficient financing structures, and effectively managing transfer pricing among subsidiaries. As a result, managers can align the firm's fiscal strategies with its sustainability strategy and increase relative performance.

Limitations and Future Research

Despite the contributions, the paper has limitations that can be analyzed in future research. First, our study is limited to large firms. Given the unique characteristics of MNEs, such as the large size and their global operations that distinguish them from their smaller counterparts, future studies could test our study model in the context of both small and large firms. Small firms may play a significant role in addressing sustainability, and their size often gives them unique advantages and opportunities. They are often more agile and adaptable compared to large firms. This agility allows them to respond quickly to changing volatile regulatory environments, market demands, and sustainability trends, making it easier to integrate sustainable practices into their business strategies (Masurel, 2007).

Second, a fundamental assumption in our study is that financial decisions of MNEs are centralized at the home country level, implying that uncertainties stemming from the institutional context of the home country might drive MNEs to engage in fiscal arbitrage to advance sustainability efforts. However, future research could investigate whether MNEs' subsidiaries have autonomy in determining how and how much to finance their sustainability investments in host countries, influencing the MNEs' overall sustainability performance.

Third, our study does encounter limitations related to the unavailability of certain data (i.e., direct measures for financial resources) and the unavailability of longitudinal data. In particular, we must maintain the mediator variable (fiscal arbitrage) within our model as a constant as we do not have longitudinal data on MNEs' subsidiaries and the Tax Justice Network releases FSI scores every two years. Therefore, a wider period of analysis and the availability of data for a panel structure could be explored in the future to validate our results. Additionally, our reliance on ESG scores for evaluating sustainability performance necessitates acknowledging ongoing discussions and concerns within the scholarly and practitioner communities. ESG scores have faced critiques, including issues related to their standardization, as different rating agencies and data providers often employ distinct methodologies and criteria, leading to inconsistency and confusion in ESG scores. Future studies may select alternative measures for fiscal arbitrage and sustainability performance.

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CHAPTER 3[1]

INSTITUTIONAL WORK AND THE TRANSFER OF DIVERSITY AND INCLUSION PRACTICES WITHIN A MULTINATIONAL ENTERPRISE

ABSTRACT

Drawing on the theoretical perspective of institutional work, this paper aims to explore the practice work and boundary work required to transfer "Diversity and Inclusion" practices within a multinational enterprise. We perform a single case study on a multinational enterprise headquartered in the USA that transfers diversity and inclusion practices to a subsidiary operating in Italy. We shed light on the work required to transfer diversity and inclusion practices originating from an advanced institutional context to another context with weaker institutions. Our findings reveal that *local champions* and *boundary spanners* play a key role in the multinational enterprises' practice transfer, while emerging *symbolic boundaries* may hinder it. We extend international business literature on specific forms of institutional work essential to transfer diversity and inclusion practices across countries on behalf of multinational enterprises. Additionally, we contribute to diversity and inclusion research by shedding new light on the organizational practices and works of specific actors necessary to make multinational enterprises' workplaces diverse and inclusive.

Keywords: *Institutional work, diversity and inclusion, MNEs, practice work, boundary work, practice transfer*

[1] This chapter is coauthored with Arabella Mocciaro Li Destri and Pasquale Massimo Picone.

INTRODUCTION

The United Nations' 2030 Agenda for Sustainable Development calls for multinational enterprises (MNEs) to contribute to tackle sustainability challenges within and between countries. To achieve Sustainable Development Goals (SDGs) related to "Gender Equality" and "Reduced Inequalities", MNEs are demanded to ensure diverse and inclusive workplaces and the same opportunities for employees without distinction as to race, gender, sexual orientation, religion, and so on. Accordingly, many MNEs are gradually implementing specific corporate policies and practices, mostly with the name of "Diversity & Inclusion" (D&I).

On this subject, a central challenge for MNEs is the transfer of D&I practices from the parent company to subsidiaries abroad. The transfer of these practices is both nonpredictable and fraught with unknowns (Ferner, Almond, & Colling, 2005). On the one hand, MNEs' subsidiaries need to conform to both a within-organization set of pressures, that are more likely originated from the parent company's country, and a set of pressures exerted by the local institutional context (Curchod, Patriotta, & Wright, 2020; Kostova, 1999). On the other hand, D&I research unveils that "employees should bring their entire set of identities to work" (Yang & Konrad, 2011: 7), therefore the transfer of such practices requires a profound adaptation to the subsidiary and is strongly influenced by the employees and how they perceive the topic of diversity (Dass & Parker, 1999). Arguably, diversity practices may also generate a perception of threat and vulnerability for some employers (Ferner et al., 2005).

Although many studies have explored how MNEs transfer organizational practices across countries (e.g., Curchod et al., 2020; Durand & Jacqueminet, 2015; Fortwengel & Jackson, 2016), given the peculiarities of the transfer of D&I practices, we recognize an interest in exploring the underlying agency forms that actors carry out to enable the transfer of such practices. Prior research recognizes that the ability of subsidiary managers "to mobilize and deploy specific power resources allows them to resist the full implementation of corporate diversity policy" (Ferner et al., 2004: 304). However, it remains not evident *how* "the activities in which individuals engage as they navigate competing institutional pressures and at the same time seek institutionalization" (Fortwengel, Gutierrez Huerter O, & Kostova, 2023: 12) may facilitate or deter the transfer of D&I practices from the parent organization to foreign subsidiaries (Aguilera & Grøgaard, 2019). Specific work and individual actions that occur when D&I practices are transferred cannot be taken for granted. First, the normative, social, and cultural conditions affect the transfer of D&I practices from the countries in which a certain degree of institutionalization regards D&I issues has been reached, to countries in which such awareness has still to arise (Jensen & Szulanski, 2004). Second, organizational boundaries and practices affect each other in a recursive relationship, and we still know little about the work of specific actors aimed to create, maintain, and disrupt respectively the boundaries and practices that are considered legitimate within an organization in order to transfer D&I practices from one geographical subsidiary to another (Lawrence, Suddaby, & Leca, 2009; Zietsma & Lawrence, 2010).

Drawing upon the theoretical perspective of institutional work to account for "actions through which institutions may be created, maintained, and disrupted" (Lawrence et al., 2009: 1), this paper aims to explore *how MNEs transfer D&I practices to subsidiaries abroad*. We investigate the transfer of D&I practices from the MNE's North American headquarters to the Italian subsidiary. Specifically, we analyze the case study of "2LMP" (the MNE's name is anonymized) which operates in the healthcare industry in the USA and internationally through five foreign subsidiaries. Our study reveals how specific actors, within a single MNE, carry out forms of institutional work to enable the transfer of D&I practices from the parent company to foreign subsidiaries. By so doing, we offer three contributions. First, the study extends extant knowledge on institutional work in international business research, exploring how MNEs transfer D&I practices between subsidiaries located in different institutional contexts. Prior studies investigated the MNEs' agency role in the transfer of environmental practices to an organizational field (Zietsma & Lawrence, 2010) and the relative research on boundary spanning to explore the transfer process of corporate social responsibility reporting practices to subsidiaries abroad (Gutierrez-Huerter O, Moon, Gold, & Chapple, 2020). In this regard, we can argue that these types of practices need to conform to numerous market standards (e.g., Forest Stewardship Council, International Standard Organization, Global Reporting Initiative), which restrict the agency of MNEs and individuals in terms of their transfer and adaptation. While the situation is quite different regarding the D&I practices. It is worth noting that D&I practices have not reached a comparable level of global institutionalization and it leaves more room for forms of individual agency in carrying out institutional work in the transfer of such practices across distinct institutional contexts and within the single subsidiary. Second, we contribute to the literature on the transfer of organizational practices on behalf of MNEs and offer complementary insights to the work of Ferner et al. (2005) by analyzing the case of *how* D&I practices are introduced within a single subsidiary of the MNE operating in a context in which the awareness of the importance of such issues is still at an initial phase. Third, we shed new light on the D&I research (Yang & Konrad, 2011) by enhancing the understanding of what activities are necessary to render workplaces diverse and inclusive and suggest that both formal and informal actions spearheaded by specific employees play a significant role in driving the diffusion of D&I practices throughout the organization.

We structure our paper as follows. In the next section, we review the extant literature informing the research topic and provide the definitions of practice, boundary, practice work, and boundary work. Successively, we describe the methodology. Then, we present our case study and discuss our findings. Lastly, we discuss our main contributions to international business and D&I research.

LITERATURE BACKGROUND

Qualitative research traditionally gathers and analyzes data, illustrates emerging theoretical concepts, and lastly, presents the theory. Nevertheless, in order to guide the reader in the storytelling and understanding of this case study, we review research on MNEs and institutions, with a particular focus on the studies of institutional work and the related forms, i.e., practice work and boundary work. Drawing upon research on institutional work and its forms and studies on practices and boundaries, we set the theoretical and conceptual ground to support the understanding of our findings.

Studies on MNEs and Institutions

MNEs typically handle very different institutions and opportunities as they operate across several country contexts. Due to their location in different countries and regions, to which they typically transfer resources, capabilities, and practices, MNEs are particularly sensitive to institutions and the way they influence strategy and performance (Ferner et al., 2005; Kostova & Roth, 2002; Jackson & Deeg, 2008; Dau et al., 2022). Leveraging institutional theory, prior research has contributed to extend knowledge regards how MNEs transfer practices across different institutional contexts and the interplay between MNEs and institutions (Fortwengel & Jackson, 2016; Jensen & Szulanski, 2004; Kostova & Roth, 2002). In this regard, Yang and Konrad (2011: 12) state that "an understanding of organizational structures and actions cannot be separated from an understanding of their social environment" that, in turn, is strictly influenced by institutions. Therefore, institutional contexts exert influence on how organizations operate and shape the institutional logics guiding employees to construct meanings and carry out activities within workplaces (Tracey, Philipps, & Jarvis, 2011).

Early international business research (e.g., Henisz & Williamson, 1999) considers institutions as single variables that constrain MNEs' actions and oblige them to adapt to or compensate for institutional shortcomings. These studies assume that institutions affect organizational practices and structures, limit the opportunity for agency, and impose isomorphic adoption, by paying little attention to how institutions progress and change (Jackson & Deeg, 2008). More recent research, however, entrusts MNEs with an agency role and the potential to affect institutions (Fortwengel & Jackson, 2016; Leone, Picone, & Mocciaro, 2023), especially when they transfer practices to subsidiaries abroad (Curchod et al., 2020; Kostova, Marano, & Tallman, 2016). In this regard, scholars called attention to the institutional work to "emphasize the idea that individuals and organizations are not only shaped by but mostly reproduce or create institutions" (Aguilera & Grøgaard, 2019: 27). For instance, Zietsma & Lawrence (2010) offer a longitudinal study to analyze the institutional work carried out by "boundary insiders" and "institutional challengers" to transfer new forest harvesting practices in the British Columbia coastal forest industry. Still, Gutierrez-

Huerter O et al. (2020) investigate the micro-processes undertaken by translators in the transfer of reporting practices in MNEs and how they are affected by the subsidiary's institutions.

Studies on Practices

Notions of "practice" are disparate. Some theorists define them as "the skills, or tacit knowledge and presuppositions, that underpin (human) activities" (Schatzki, Knorr-Cetina, & Von Savigny, 2001: 11). Foucault (1976) describes practices as arrays of human activity. Practices are more than simple arrays of human activity, "they never possess the sui generis existence" (Schatzki et al., 2001: 14) and so, they lead individuals to perform certain behaviors according to certain situations. Hence, the meaning of practice involves not only "*what* is done", but also "*how* it is done" (Whittington, 2006), representing forms of activity that are recognizable by others due to their conformance to certain social expectations (Zietsma & Lawrence, 2010). Moreover, the origins of practices may be tacit or evident. On the one hand, De Certeau (1984: 70) describes the origins of practices as "murmurings of the everyday (life)", on the other hand, some scholars talk about practices as "formal and explicit routines" (Yang & Konrad, 2011; Zietsma & Lawrence, 2010: 192). Both theoretical approaches can provide critical understandings to address our case study in which D&I practices seem to have formal origins (e.g., written documents, policies, and meetings) but also stem from informal day-to-day interactions between employees. Those who implement new practices that alter the existing ones perform what Zietsma and Lawrence (2010) define as "practice work", i.e., the work of specific actors to maintain, disrupt and create practices that are considered legitimate within an organization.

Studies on Boundaries

The concept of "boundary" informs many research lines across the social sciences (e.g., history, political science, and sociology). Extant research distinguishes between symbolic and social boundaries (Lamont, Pendergrass, & Pachucki, 2015; Lamont & Molnàr, 2002). Symbolic boundaries are conceptual distinctions aimed at categorizing objects, people, activities, and sometimes, even time and space. They generate "inequality and exercise of power" (Lamont et al., 2015: 850). In contrast, social boundaries represent "objectified forms of social differences manifested in unequal access to and unequal distribution of resources (material and nonmaterial) and social opportunities" (Lamont & Molnàr, 2002: 168). While the former usually remain tacit, the latter manifest themselves distinctly (Lamont & Molnàr, 2002).

Within the vast intellectual domain that boundary literature covers, we draw upon the research that distinguishes people and groups and leverage several contributions regarding "boundary work", "boundary spanners" and "boundary spanning roles" (Lamont & Molnàr, 2002; Langley et al., 2019). In our study, we use the notion of boundary work given by Zietsma & Lawrence (2010) who define it as the work of specific actors to create, maintain and disrupt boundaries. Moreover, we leverage the boundary spanning studies focusing on how people working across boundaries are legitimate participants in multiple boundaries and "cope with their own identity tensions" (Langley et al., 2019: 35). Table I summarizes the main definitions that we use in this study.

Table I: Definitions of practice, boundary, practice work, and boundary work.

Practice	Boundary	Practice Work	Boundary Work
Murmurings of everyday life and recognized forms of activity that conform to certain social expectations (De Certeau, 1984; Zietsma & Lawrence, 2010)	The distinction between individuals and groups with authority in legitimizing practices (Zietsma & Lawrence, 2010)	The work of specific actors to create, maintain and disrupt the practices that are considered legitimate within an organization (Zietsma & Lawrence, 2010)	The work of specific actors to create, maintain and disrupt the boundaries (Zietsma & Lawrence, 2010)

METHODOLOGY

This research presents a single case study. Performing a single case investigation meets the need for a fine-grained exploration that is not reasonably possible with a large sample (Golden-Biddle & Locke, 1993). This aspect is particularly important when the topic is not well developed in extant literature. Thus, we selected a case study that ensures that the empirical phenomenon "can be observed in a manner which facilitates theoretic insights" (Reuber & Fischer, 2022: 29). In this specific case, the way through which an MNE transfers D&I practices across countries and the underlying individual actions seem to have received marginal attention. Actors that trigger institutional work, and breach existing practices and boundaries, need time to alter the *organizational status quo*. In this regard, Langley and Abdallah (2011: 202) claim that qualitative data allow researchers to examine the work underlying change over time. Therefore, this study adopts a qualitative methodology to analyze the transfer of D&I practices prompted in 2LMP.

Case Study Selection

We select the 2LMP healthcare organization which is based in the USA and started to transfer D&I practices to its Italian subsidiary in 2021. The time and energy spent on managing the D&I practices represent a part of the current efforts to increase the well-being of the Italian subsidiary's employees. The selection of the single case study of 2LMP is the outcome of a *purposive case* selection process that, with the advancement of the study, seems very similar to "phenomenal variation sampling" (Sandelowski, 1995). The choice of 2LMP is grounded on four reasons. First, it offers the possibility to focus on a specific phase of the practice transfer within the MNE; precisely the initial phase of the transfer of D&I practices to the Italian subsidiary of 2LMP. The time and energy spent on managing the D&I transfer represent a part of the current efforts to increase the workplace inclusiveness of the Italian subsidiary of 2LMP. Indeed, the Italian subsidiary is developing various new practices to address these issues.

Second, the 2LMP case study is a particularly attractive subject for investigating the transfer of D&I practices because it analyzes an organization that is headquartered in the USA and operates with subsidiaries in different institutional contexts. The choice to analyze the transfer from the parent company to the Italian subsidiary lies in differences explained in terms of the number of years employed in D&I issues and the cultural differences between the two country contexts. In the specific case, regarding the issue of D&I, while the American parent company perceives it as a question mainly of gender and race, the Italian subsidiary perceives it solely as a gender problem. This difference in perception may be explained by analyzing the pipeline of organizational careers in the two settings. In the Italian setting, there is hardly any request to enter or progress in the organization from non-Italian citizens. In this regard, the American context shows a long experience in fostering a culture of diversity (for a detailed argumentation see Ferner et al., 2005); in this context, the term "diversity" describes the infinite range of peoples' unique attributes according to race, gender, age, and disability (Qin, Muenjohn, & Chhetri, 2014). Building a diverse and inclusive workforce has represented one of the most critical challenges faced by American organizations for a very long time, as reported on the 2LMP parent company's website. On the contrary, Italy is only recently requiring organizations the implementation of specific practices related to gender diversity (e.g., gender certification). Additionally, the progress in gender equality practices in Italian organizations stems mostly from the necessity to comply with the European Union (EU) regulations and the opportunity to access funding from its research programs. For instance, the Horizon Europe Program provides funding for those organizations that, among the other requirements, elaborate a Gender Equality Plan (GEP) (here considered a practice) that drives action towards "a process of structural change" (EIGE website).

Third, 2LMP is an interesting case study because it supports a nested approach (Gibbert, Ruigrok, & Wicki, 2008) since there are different professional categories and roles characterized by specific logics within the Italian subsidiary. D&I practices can be differently perceived according to the professional category to which the single employee belongs. This aspect may become relevant in clarifying the differences in the observed findings, for instance, in terms of acceptance or resistance to the occurring change. In this study, besides the consideration of organizational roles, such issues may be analyzed even in light of the three different professional categories present in each subsidiary, i.e., administrative staff, doctors, and nurses. Within each professional category, people have different tasks and goals to reach and the way they work varies according to different logics that are influenced by the normative, cognitive, and regulative institutions that characterize the Italian context. Therefore, our research considers boundaries that are clearly defined between subsidiaries within the MNE and boundaries that emerge between professional categories within a single subsidiary.

Finally, according to Patton (1990), access to information appears crucial to inform the case selection choice, justify the sample selection, and pose conditions to guarantee an information-rich case (Locke, 2001). Since access to the 2LMP organization has been gained for this research, it ensures adequate data richness and variety.

Data Sources

Among the advantages of a single case study, there is the possibility to exploit the contents of multiple data sources and triangulate facts (Graebner, Martin, & Roundy, 2012). A single case study allows for leveraging open-ended data. We capture the subjective experiences of employees and perceptions that they develop during the work leading to the implementation of a new practice in the workplace (Reuber, Alkhaled, Barnard, Couper, & Sasaki, 2022). Additionally, the vividness and richness of single case study research offer an in-depth understanding of the underlying circumstances affecting "how" a phenomenon happens, in our case, how the D&I practices are being transferred in 2LMP.

Data collection mainly consists of carrying out interviews with 2LMP's employees (see Table II), participating in online events and conversations (see Table III), and gathering secondary data (see Table IV). We carried out 50 interviews and participated in 7 D&I events organized by the Italian 2LMP. At least two researchers attended the interviews that lasted 30-90 minutes, all interviews were audio recorded and transcribed verbatim. Moreover, researchers took notes of all useful information during the events to which they participated.

Table II: Interviews and timeline

Timeline	D&I Transfer	Interviews
June - December 2021	Building the Gender Medicine, GEDI, and D&I committees Elaboration and publication of the GEP	*No interviews*
January - April 2022	Organizing the D&I month	1 Director of Management Control and Decision Support *1 interview*
May 2022	Online events of the D&I month	1 Chief Quality Officer 1 Talent Manager 1 Recruitment and D&I Expert *3 interviews*
June 2022		1 Training Manager 1 Medical Doctor *2 interviews*
July 2022		2 Medical Doctor 1 Grants Department Director 1 Senior Specialist *4 interviews*
August 2022		1 Clinical Research Associate *1 interview*
September 2022		2 Study Coordinator 1 Recruitment and D&I Expert *3 interviews*

October 2022	The first meeting of the *We for Woman* committee	*No interviews*
November 2022		1 Nurse 1 Operations Manager 1 Executive Assistant 2 Medical Doctor *5 interviews*
December 2022	The first meeting of the *D&I committee*	4 Medical Doctor 4 Senior Analyst and Controller 1 IT Specialist 1 Nurse 3 Interpreter and Translator 1 Talent Manager 1 Insurance and BTB Development 2 Public Relations Manager 1 Innovation and Engagement Manager 1 Engineer 2 Administrative Assistant 2 H&R Business Partner 1 Junior Controller 1 Training Manager 1 Director of the Department of General Affairs and Personnel 2 Radiologic Technologist 1 Director of the Department of Business Development 1 Director of Management Control and Decision Support 1 Talent Specialist *31 interviews*

Table III: Brief description of D&I events in which researchers participated

Type of Event	Main Content	Date	Duration
Online Webinar	A presentation of an external organization to support 2LMP in developing their D&I practices	May 16, 2022	1 hour
Online Webinar	A presentation of the PRIDE events	May 17, 2022	1 hour
Online Webinar	A presentation of the GBS|CIDP FOUNDATION INTERNATIONAL /GBS|CIDP Organization Europe (testimony of an internal employee)	May 19, 2022	1 hour
Online Webinar	A presentation of an organization that focuses on sports that are practiced by disabled people (testimony of an internal employee)	May 24, 2022	1 hour
Online Webinar	A presentation about the “Big resignation and diversity” phenomena in the healthcare industry	May 26, 2022	1 hour
Online Webinar	A presentation of the main normative tools in support of the D&I practices (testimony of an internal director)	May 27, 2022	1 hour
Online Webinar	A presentation of the main points of the Gender Equality Plan (GEP)	May 30, 2022	1 hour

Table IV: Lists of secondary data

Source/Audience	Secondary Data
Internal/external	The Gender Equality Plan (GEP) document
Internal/internal	The “D&I month” programme
Internal/internal	Flyer and programme of the “We for Women” committee

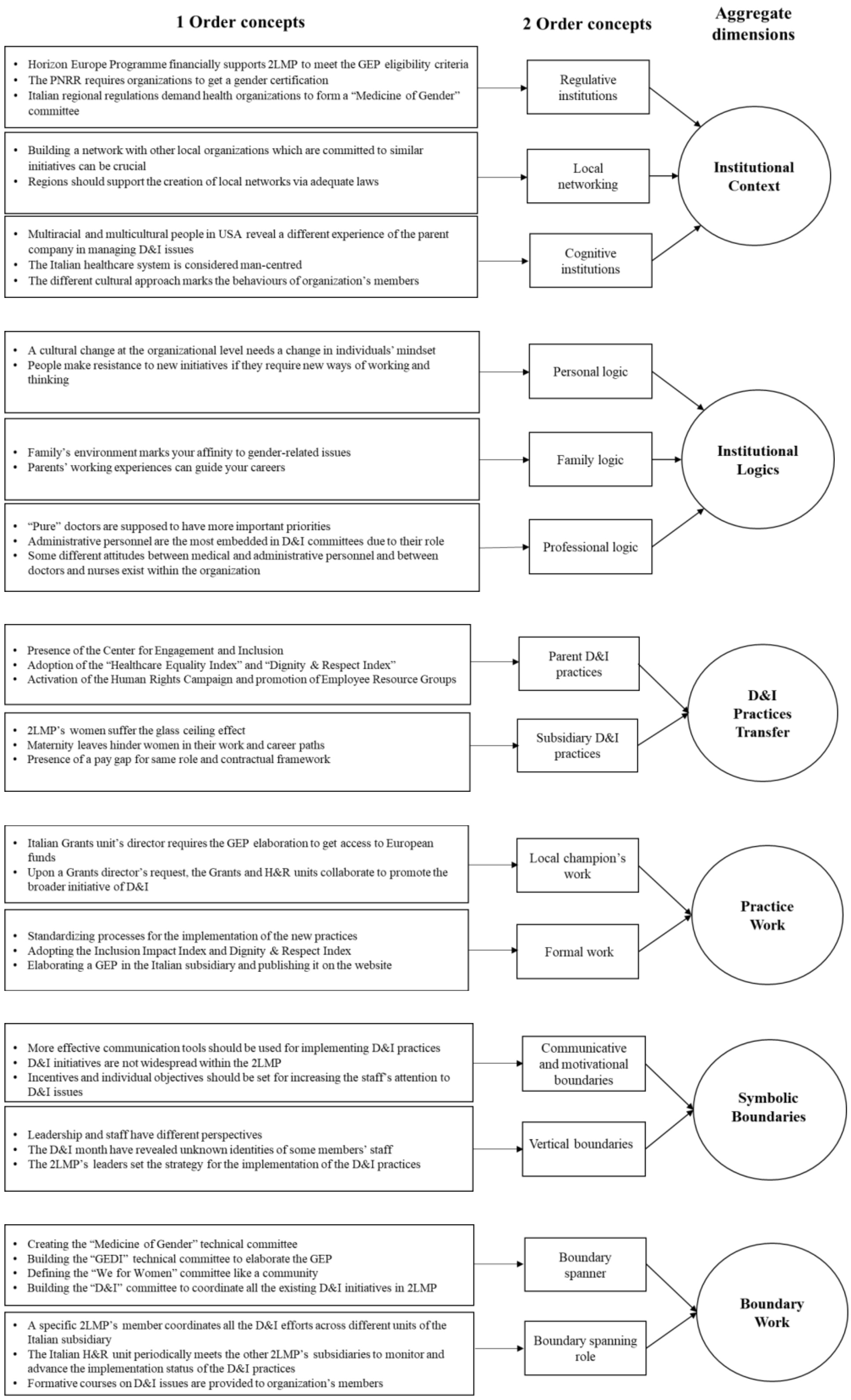
Internal/external	Web page of the Italian subsidiary of 2LMP
Internal/external	Web page of the parent company of 2LMP
External/external	Eurostat web page
External/external	EIGE (European Institute for Gender Equality) website

In Morse's footsteps (1991: 129), "the researcher selects a participant according to the needs of the study." Correspondingly, we initially interviewed an informant with a broad general knowledge of the organization and its new D&I practices. Then, as the research progressed, the description was extended with specific information, and interviewees with particular knowledge of the D&I practices and GEP of 2LMP were deliberately sought out (Coyne, 1997). Specifically, we selected the informants based on a *snowball sampling procedure*. At the end of each interview, we asked each interviewee to provide us with the names and emails of other potential informants. By repeating this procedure, we achieved a cumulative and dynamic effect known as the snowball effect (Noy, 2008).

Data Analysis

We draw on Gioia's methodology to analyze data (Gioia, 2004). The first step consists of an "open coding" of data extracts and grouping these into 1-order concepts. Then, seeking similarities and differences through an "axial coding" process (Strauss & Corbin, 1998), we identified 2-order concepts. After subsequent comparisons of the data, we created aggregate dimensions to support the research and built our analytical framework through an abductive research process, moving between empirical data and theory (see Figure 1). We analyzed prior literature to contextualize data from the empirical setting and perform an iterative process among data, previous literature, and emerging theoretical concepts (Reuber et al., 2022). We proceeded to validate our conclusion by showing our findings to respondents and discussing our insights. In no instance we have registered a significant conflict in the interpretation of our case.

Figure 1: Data structure

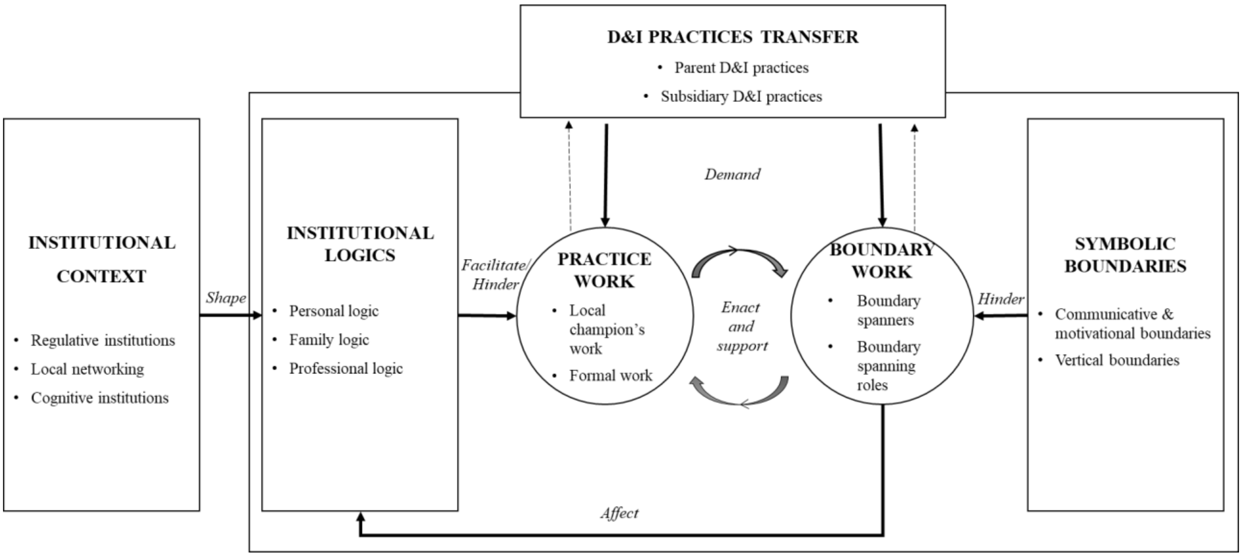


FINDINGS

We illustrate our findings in a framework, infer possible linkages between the aggregate dimensions, and explain how the interactions between aggregate dimensions facilitate or hinder the transfer (see

Figure 2; Corley & Gioia, 2004). Specifically, we identify six aggregate dimensions of the practice transfer that emerge from the case study of 2LMP: (1) institutional context; (2) institutional logics; (3) D&I practices transfer; (4) symbolic boundaries; (5) practice work; and (6) boundary work.

Figure 2: Framework for practice transfer at 2LMP



In the following, we disentangle the analytical framework to analyze each aggregate dimension and intersperse the narrative with meaningful quotes to support our interpretations (Pratt, 2009).

Institutional context

The institutional context within which actors operate strongly influences the transfer of D&I practices. In this regard, Kostova (1999) offers the concept of "institutional distance" revealing that institutional differences across country contexts constitute a key variable in the transfer of practices. Accordingly, our data analysis proves that specific elements inform the aggregate dimension of institutional context: regulative institutions, local networking, and cognitive institutions.

Regulative institutions. The 2LMP Italian subsidiary began to make efforts towards the implementation of practices to address D&I issues in order to conform to the recent international and national regulations requiring more diverse and inclusive workplaces. Regulative institutions' role in pushing organizations to comply with specific standards is widely recognized (Aguinis & Glavas, 2012; Campbell, 2007). As a research institute, in January 2022, the Italian subsidiary decided to apply for a "Horizon Europe" funding program promoted by the European Commission. Following the Horizon Europe funding requirements, the Grants unit of the Italian 2LMP was encouraged to elaborate its first GEP (here considered a new practice). Simultaneously, the H&R unit of the Italian subsidiary was working on the D&I practices following the guidelines of the American H&R unit. Driven by different objectives, two organizational units within the Italian subsidiary were separately working on the elaboration of 2LMP's first D&I practices, unaware of the efforts of the other unit (i.e., the Grants unit and the H&R unit). Besides this initiative related to gender equality, other related initiatives existed already in the organization, but they were in no way coordinated and were conducted independently from each other. For instance, the Italian 2LMP had planned the application and diffusion of "Gender Medicine[2]" as demanded by the Italian Ministry of Health in June 2019.

> It pleases me that attention was being dedicated to the D&I issue but at the same time, I regret that the spotlight was formally turned on this issue (D&I) because of funding, and thus due to a legal obligation. (Training Manager)

Therefore, laws and regulations of the relevant context for the Italian subsidiary (i.e., Italian and European) represent crucial drivers fostering the transfer of D&I practice but at the same time, they can pose a daunting challenge to the Italian subsidiary that is demanded to maintain a fit with the rules coming from the American parent company. For example, the parent company created specific organizational settings within the American parent company called the "Employee Resource Groups", while the Italian subsidiary established technical committees that work differently.

Local networking. As reported by many informants, the D&I transfer represents a big challenge that needs to find an internal "fertile ground" among employees and be supported by external parties with whom it may be possible to "think as a system" (Director Grants & Project Management Unit). It is clearly stated by interviewees that local networking between civil and private organizations that share common goals is strongly desired.

> Networking represents a crucial commitment to spread good practices and compare with others dealing with the same issues (…) we have strengthened collaboration and received

[2] Gender Medicine studies how (sex-based) biological and (gender-based) socioeconomic and cultural differences influence people's health (The World Health Organization).

> input from those with whom we had previously had a good neighborly relationship. (Recruitment Specialist and D&I Expert)

The Italian subsidiary of 2LMP acknowledges the need of having conversations with local and national institutions, organizations operating in the same industry, and organized interest groups to encourage the implementation of D&I practices, as well as to adopt a proactive behavior towards their dissemination and institutionalization (Curchod et al., 2020).

Cognitive institutions. Differences in culture affect the transfer of practices and, although 2LMP may possess a strong corporate culture, the institutional embeddedness of D&I issues "is in many aspects changeable and uncertain" across countries (Ferner et al., 2005: 310). Though the Italian subsidiary could benefit from the intense experience on D&I issues of the American parent company, the cognitive institutions able to influence this sphere of perception and action, i.e., cognitive understandings, shared beliefs, and cultural heritage, are very different between the two contexts.

> We can exploit their processes and tools, but they need to be adapted to the Italian context. Theirs are all about race, (…) in our context (Italy) there is a different culture and sensitivity. (Talent Manager)

However, it does not seem to be a limit but an opportunity to enlarge the meaning of diversity.

> My motto is «diversity is diverse» and that diversity changes according to the context. (Recruitment Specialist and D&I Expert)

Institutional logics

The institutional context shapes the actions of employees that, in turn, play a key role in constructing meanings and carrying out actions towards the "redefinition of the organizational reality" (Gioia & Chittipeddi, 1991: 442). The way through which new practices are perceived by employees can vary according to their personal, family, and professional logic within the MNE. We categorize personal, family, and professional logics as "institutional logics" that serve to "link internal mental cognitions to external rituals and stimuli and connect meaning with action" (Tracey et al., 2011: 62). In this regard, some studies propose the concept of "internali[z]ation" as the "way in which employees attach meaning to the practice or infuse it with value" according to which they may facilitate, or even, hinder configurations of practice work (Ferner et al., 2005: 306; Kostova, 1999).

Personal logic. During practice transfer, actors of the Italian subsidiary can struggle to adequately interpret and understand the new practices (Ferner et al., 2005), and intense efforts can be demanded to reduce the dissonance between the D&I practices and existing personal beliefs (Canato, Ravasi, & Philipps, 2013).

> A workplace is really a cultural event and, in my opinion, the GEP must contribute to changing just this kind of attitude (...) when such a cultural process will become part of individuals, people will begin to talk about it. (Director Grants & Project Management Unit)

Though the D&I practices can address these issues, it requires individuals to perform a pattern of personal accommodation to favor their transfer (Ferner et al., 2005).

> It is the change of the last year, certainly very challenging personally, I had to start over, reinvent myself, learn new things, and feel like a learning intern. (Talent Manager)

Family logic. The different cognitive institutions are not only related to the history of a country, but they could be tied to a smaller realm, such as the family of origin that may profoundly shape employees' attitudes.

> It is what our family has given us, what the environment where we grew up has given us. (Director Grants & Project Management Unit)

Professional logic. The practice transfer related to D&I issues seems to advance "at two different speeds" (Training Manager) among the employees. Indeed, some common meanings and similar cognitive schemas move employees in different directions according to their professional category. For instance, medical staff (medical doctors and nurses) perceive the D&I practices differently from the way the administrative staff does. According to the former, this difference is because they cannot (or do not want to) dedicate attention to initiatives that seem distant from the needs of their patients.

> It is infrequent for healthcare employees to participate in the D&I meetings because they do not perceive it as their priority. (Training Manager)

D&I practices transfer

The transfer of D&I practices appears crucial to address some existing weaknesses of the Italian subsidiary that emerge from the data analysis. To better explore the scenario of the practice transfer regarding D&I issues, it is important to clarify why the D&I practices were promoted and what organizational challenges need to be raised. Drawing on the triangulation of data collected by informants and the GEP document published on the Italian 2LMP web page, we reconstrued the practice transfer's origins that demanded configurations of both practice work and boundary work. We realized that the case of 2LMP is of interest because is not a simple case of practice transfer demanded by the parent company. The practice transfer starts when, after the elaboration of the GEP as required by European regulation, the Grants and H&R units of the Italian subsidiary began to work together to integrate the GEP and other related initiatives, already existent within the organization, into the greater D&I project fostered by the parent company.

> It's not just a copy and paste of (the parent company's) policies and practices, but it's the same philosophy, the same guiding principles. (Recruitment Specialist and D&I Expert)

Parent D&I practices. According to most informants, belonging to a business group offers the opportunity to learn "from the best." In this specific case, the 2LMP American parent company presents a long-standing tradition in D&I issues and its impact on the Italian subsidiary plays a key role in the transfer. It supports the Italian 2LMP in defining practices and providing adequate policies and instruments to promote change within the MNE.

> Americans are very clever; they have a toolkit for everything (…), we are different from them, but their toolkits constitute a base from which we can start. (Chief Quality Officer)

The set of D&I practices that the parent company can transfer to the Italian subsidiary is very ample. Among the countless practices adopted in the USA, specific ones could help the Italian subsidiary to address the emerging organizational weaknesses such as the mentorship programs for young women who want to progress in their careers, surveys to evaluate the degree of the welfare of employees belonging to different professional categories, and systems to constantly monitor gender balance during all phases of the recruitment process (Talent Manager).

Subsidiary D&I practices. The transfer of D&I practices finds its deepest reasons in existing bad practices that became apparent in 2021 due to an internal survey on the Italian subsidiary's wellbeing. Specific aspects that emerged regarded career progression challenges and the existence of pay gaps.

> My personal perception is that I have to work three times because I am a woman, I am a mother, and I am a clinician. (Clinical Research Associate)

Medical and administrative staff appear to be two separate groups with different perceptions about their identities, authorities, and priorities within the organization. Also, sub-groups can be observed (e.g., medical doctors and nurses).

> There is an inclination to choose men to cover coordinating roles, and if you are also a doctor you have an extra advantage. (Chief Quality Officer)

Thus, the question of the glass ceiling represents a relevant problem that deserves attention. Women of the Italian 2LMP subsidiary perceive unwritten rules, culturally accepted norms, and implied bias that impede them from reaching high-level or managerial positions within the organization. The reasons can be various, such as the lack of corporate policies that better align work-life needs, the male-dominated hierarchy, and the issues related to maternity leave.

> The weapon used by women is to behave like men. What I think is that many women resolve the problem by playing the part of a man. (Training Manager)

The question becomes more serious when the differences related both to gender and professional category affect the employees' pay and cause inequality problems that are widely felt within the organization but remain tacit.

> Our salaries are not public, we're a private organization. Everyone has a different salary even at the same hierarchical level, besides the man-woman question, even with the same contractual level there are big differences in pay, and, among other things, we're not allowed to discuss these issues among ourselves and compare them. (Training Manager)

Practice work

The Italian subsidiary of 2LMP does not have institutionalized D&I practices, but only some very recent and non-coordinated initiatives promoted to comply with European and national regulations. Therefore, we gained entry into the organization's subsidiary early enough in time to capture the initial phase of the practice transfer and analyze the first configurations of practice work.

Local champion's work. We recognize a *local champion* as the specific actor that encourages the organization to accelerate the practice transfer and provides an opportunity to create a fit between the parent company's practices and local constraints. In the Italian subsidiary, the Director of the Grants & Project Management unit covers this role with the support of his entire organizational unit.

> We are the promoters of the GEP project, we are the GEP (…) I created an internal climate of terror to work towards the GEP elaboration, I couldn't waste time and lose this project. (Director Grants & Project Management Unit)

Firstly, the director of the Grants & Project Management unit promoted the GEP project to get access to the Horizon Europe program. After, the Grants unit together with the H&R unit enacted the GEP's integration into the greater D&I project of the parent company.

> I said «I must have the GEP formally, we will then make it work with D&I (issues)». Everyone must understand, even from the parent company, that they (GEP and D&I issues) are the same thing. (Director Grants & Project Management Unit)

Formal work. Organizational actors need formal tools and measures to advance practice work and assess the achievement of D&I goals.

> I consider formal moments important because it (GEP) is a corporate program, and it must be discussed in formal meetings to structure the monitoring systems and control what is being done. (Director Grants & Project Management Unit)

Typically, formal policies and measurement indicators support the implementation of new practices. Besides the formal GEP document, during an online meeting of the D&I month, we learned about the adoption of a measurement tool of inclusivity, i.e., the "Inclusion Impact Index." This index is the basis for the definition of systems of D&I auditing. The collaboration with an external party supports the Italian subsidiary in adopting these formal tools and systems and proposes new D&I opportunities such as the so-called project "In the Board Room" that facilitates the inclusion of women on boards of directors.

> We are collaborating with them (the external party) because they have a wide set of indices that allow us to assess where we position in the ranking to get the national gender certification required by the PNRR[3]. (Training Manager)

Symbolic boundaries

Top managers and middle-managers belonging to the Grants and H&R units constitute the pivotal boundaries for the transfer of D&I practices. However, by participating in the online D&I meetings, it became apparent that the boundaries are not clearly defined due to the novelty of these practices,

[3] PNRR is the Italy's recovery and resilience plan relating to economic and social resilience, and green and digital transition.

and a difference in the perceived importance between employees emerged, whereby some of them are considered superior to others. In this regard, we introduce the concept of *symbolic boundaries* as opaque lines that, by including some people and groups while excluding others, are sources of inequality and exercise of power (Lamont et al., 2001). On the one hand, the existence of symbolic boundaries constitutes a concern that the D&I practices should address. On the other hand, it renders the identification of which actors can legitimize the new practices difficult because tacit boundaries emerge between employees and hinder the boundary work in the practice transfer.

Communicative and motivational boundaries. Organizational communication and the lack of adequate incentives contribute to the set of symbolic boundaries. Internal communication about D&I issues is ineffective or, sometimes, does not exist at all. When the Italian 2LMP decided to start working on the D&I transfer, it launched a program of daily online meetings for an entire month (see Table III). However, the invitations for these meetings were sent via email, a tool that most medical staff do not use.

> To be honest, the issue (D&I) is not truly felt within the organization (…). The initiatives should be better explained and differently integrated at various levels of the organization, to get the message across in the best possible way to most employees (Chief Quality Officer).

Moreover, we realized that the farther our informants are from holding positions of responsibility in the D&I transfer, the more their information about the practices and their origins becomes confused. We identified specific employees (i.e., study coordinators and clinical research associates) that, despite most of their work consisting in collaborating with doctors and helping them to carry out research, according to national regulations, belong to the administrative staff. Thus, their role provides them with a significant potential to "bridge the two worlds" (Clinical Research Associate), but symbolic boundaries seem to hinder this opportunity. Indeed, they know very little about the D&I practices and do not participate in related transfer.

To increase the involvement of all employees in the D&I practices and not allow symbolic boundaries to hinder and slow down their transfer, individual incentives should be set within the Italian subsidiary and connected to the new practices. The employees' motivation represents a key element of the absorptive capacity that an organization develops during a practice transfer (Minbaeva et al., 2003). Even Lane and Lubatkin (1998) acknowledge the importance of compensation practices in inter-organizational learning.

> If I knew that my annual incentive depends on achieving the goals and that the goals are mandatory, my approach would be more proactive. (Medical Doctor)

Vertical boundaries. While internal communication sets horizontal symbolic boundaries (i.e., the same organizational role but within a different unit), vertical boundaries emerge according to the actors belonging to the leadership or staff. Our data demonstrate that leaders have higher levels of control and knowledge about the D&I transfer compared to staff. Further, this distinction contributed to provoke resistance to the practice transfer because most of the employees belonging to staff ignored the new practices.

> D&I was known only at certain (organizational) levels for those who had taken part in dialogues or meetings with the parent company. (Director Grants & Project Management Unit)

> I have attended the D&I courses within a course on Leadership and Management sponsored by American 2LMP (…) only people who participated in the leadership and management course have had the opportunity to attend D&I courses. (Medical Doctor)

Boundary work

Boundary work confers opportunities to undermine the existing symbolic boundaries in the Italian subsidiary and bring people belonging to different groups together to talk about D&I issues. In doing so, configurations of boundary work affect the different institutional logics that move 2LMP employees.

> A dad who participates in the "We for Women" committee comes home with a new background and can have an important confrontation with his daughters. In doing so, the company has an external social impact (…) therefore, we can say that we are promoters of cultural change. (Director of Management Control and Decision Support)

Boundary spanners. During the elaboration of the GEP, top managers of the Italian subsidiary of 2LMP realized the need to unite all the separate initiatives under a unique umbrella term “D&I” due to the American parent company’s influence. At the end of the year 2021, the D&I committee was created to guide the three related committees that already existed in the organization, i.e., “Gender Medicine”, “We for Women”, and “GEDI” (Gender Equality Diversity & Inclusion) committees.

Building multiple technical committees related to diversity aspects is a form of boundary work to advance the transfer of D&I practices. Technical committees constitute boundary spanners within the Italian subsidiary of 2LMP that, by bringing together employees from different boundaries, create awareness of D&I practices, contribute to their progress, allow people to share knowledge, and experience, and propose future directions to reach jointly.

> (The creation of the D&I committee) was a crucial moment because it allowed us to map the various initiatives, we were aware of they existed, but we did not have a clear idea of each one. (Recruitment Specialist and D&I Expert)

Boundary spanning role. From our data analysis, it has emerged that a specific actor of the organization coordinates all the activities of the four technical committees, tears symbolic boundaries down, and provides adequate training to employees. With a *boundary spanning role*, the Recruitment Specialist and D&I Expert acts "as a member of all technical committees and (tries) to balance the different views of all participants" (Recruitment Specialist and D&I Expert). This actor works with the different boundaries of the Italian subsidiary and, together with the whole H&R unit, with the different international subsidiaries.

> We meet with American colleagues every month. The Italian H&R unit reports to the American one the various D&I initiatives and issues that we are pursuing in our organization. (Recruitment Specialist and D&I Expert)

The Italian H&R unit fosters social interactions within and between new boundaries and aligns the needs of the Italian subsidiary with the parent company's requirements. Thus, they should possess "mediating skills" to "gather and exchange knowledge and facilitate connections inside and outside the MNE" (Gutierrez-Huerter O et al., 2020: 8).

Practice work and boundary work in a recursive relationship

In order to implement a practice transfer at the organizational level, practice work and boundary work should enact and support each other in a recursive relationship (Zietsma & Lawrence, 2010). Indeed, the practice work carried out by the Grants and H&R units to elaborate the GEP activates forms of boundary work through the establishment of technical committees.

> We have constituted a D&I committee where the top managers have a seat (..) whose role is to coordinate all the (D&I) initiatives and define long-term strategies, set the goals, and monitor progress in reaching them. (Talent Manager)

In turn, individuals, who come from different organizational units and belong to both leadership and staff, operating within these new groups propose new forms of practice work.

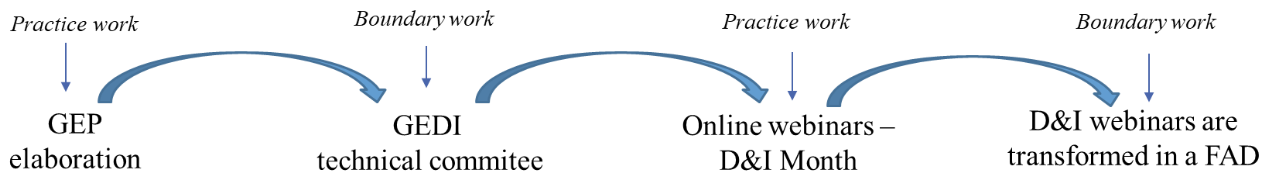
> When I was involved in this project, I said that I was interested in two things: to cancel the maternity months in the computation of the minimum number of days worked to be eligible for the organization bonus and to make a survey on the payroll within the organization. (Medical Doctor)

New boundaries can also lead to the adoption of new practices.

> For each goal, a progression indicator was recognized. For example, the D&I and GEDI committees have an annual indicator which is the number of committee meetings. (Medical Doctor)

Therefore, configurations of practice work and boundary work co-occur and are supported by both new practices and boundaries as illustrated in Figure 3.

Figure 3: Illustrative example of the recursive relationship between practice work and boundary work



Therefore, we show that the transfer of D&I practices originates from the interaction of three dimensions of our analytical framework (i.e., institutional context, institutional logics, and D&I practice transfer). These encourage specific actors to initiate practice work. In turn, practice work requires organizational actors to form new boundaries, and thus fosters boundary work to legitimate the new practices. Synergies between the new boundaries and cooperation between the individuals within each new boundary generate additional configurations of practice work, and in doing so, practice work and boundary work affect each other in a recursive relationship (Zietsma & Lawrence, 2010). Moreover, boundary work may be undermined by symbolic boundaries that, remaining tacit within the organization, can emerge when a practice transfer occurs. These arguments lead us to conclude that the transfer of D&I practices is facilitated when (a) practice work and boundary work enact and support each other, (b) employees' institutional logics, shaped by the institutional context, positively affect the practice work, (c) boundary work positively affects the employees' institutional logics. On the contrary, the transfer of D&I practices is deterred when (a) emerging symbolic boundaries hinder the boundary work, (b) employees' institutional logics, shaped by the institutional context, negatively affect the practice work.

Through power quotes (Pratt, 2009), we provide robustness to our interpretations of data (see Table V for supplementary quotes).

Table V: Additional quotes

Institutional Context	Regulative Institutions	- "*Our goal is to get the gender certification required by the PNRR (National Recovery and Resilience Plan).*" (Talent Manager) - "*The GEP is a document required by the EU to get Horizon program's fundings, a research program that is connected with the sustainability goals of the 2030 Agenda.*" (Recruitment Specialist and D&I Expert)
	Local Networking	- "*You have probably heard the term used "2LMP Cluster" (...) we are working more and more to make the several entities legally distinct from each other but also strongly interconnected at the corporate level (...) to give a strong image of the (business) group because we believe that it's the key to success.*" (Director Grants & Project Management Unit) - "*Laws don't support us… why the region doesn't help healthcare organizations to create a local network?*" (Director of Management Control and Decision Support)
	Cognitive Institutions	- "*In USA the Black Lives Matter movement has raised the close attention to the racial issue, while our problem in Europe is related to the gender equality.*" (Recruitment Specialist and D&I Expert) - "*When practices are transferred within the business group do not exist barriers, but a different cultural approach.*" (Director of Management Control and Decision Support)
Institutional Logics	Personal Logic	- "*We perceive critical issues, (...) but we think that things have to go in a certain way… however with the D&I project we start to gain awareness, talk about it, and understand.*" (Nursery Director) - "*I imposed it (GEP) and not for some incentives on my pay, but because I think it's important, a nice thing and it contributes to one of my dreams as a child.*" (Director Grants & Project Management Unit)
	Family Logic	- "*No one was ever surprised that my father worked, he was an oncologist, and he was never at home. Many people are surprised when I tell them that my mother, a professor, also worked a lot and that I was mainly brought up by my grandmother because of this.*" (Recruitment Specialist and D&I Expert) - "*It is an issue that we can reflect on in many contexts, including the family context.*" (Chief Quality Officer)
	Professional Logic	- "*My impression is that the 'pure' doctor deals with the most contingent problems in the ward and feels these (D&I) issues as something extra because they are not a priority.*" (Training Manager) - "*The administrative staff are more sensitive probably due to their training experience… let's say that because of the work they do and especially because they have taken courses on the topic, they feel obliged to promote these initiatives.*" (Consultant Neurologist)
Transfer of D&I Practices	Parent Company D&I Practices	- "*Policies must be updated, monitored, evaluated, and compared with the parent company.*" (Director of Management Control and Decision Support) - "*They (American peers) have the Employee Resource groups where women can talk about common difficulties, or still they have Mentorship programs for those young women who want to advance in their careers.*" (Talent Manager)

	Subsidiary D&I Practices	- *"I had recently been hired, the scene was this: me and my supervisor inside the elevator and him telling me <Please don't get pregnant>"* (Resigned nurse) - "*It is well known that many women, even managers, earn less (than men) for the same role. We know that there is strong discrimination and variability for the same type of role and with the same contractual framework*." (Chief Quality Officer)
Practice Work	Local Champion's Work	- "*The first thing that I said was << I'm here to work, I do not stop, no one hinders me to develop the GEP>>"* (Director Grants & Project Management Unit) - "*The GEP wasn't imported from the parent company, because it's related to the European funds, so the Grants started working on it and then together with us.*" (Talent Manager)
	Formal Work	- "*We are collaborating with an association to use their Inclusion Impact Index; another indicator is the Dignity & Respect Index (...) the process needs to be structured.*" (Talent Manager) - "*It is necessary to activate processes and activities of collecting data to monitor the change of practices (…) great efforts are required administrative personnel to improve and strengthen the standardization of processes*." (Director of Management Control and Decision Support)
Boundary Work	Boundary Spanners	- "*At some point, we felt that it was essential to have a precise direction. It was given by the Diversity & Inclusion Committee that was formed just a few months ago.*" (Recruitment Specialist and D&I Expert) - "*Before, there was no focus on (D&I) issues in a structured way. We built the D&I committee for this reason. Top managers also sit at the table. It will meet three times a year to define multi-year strategies.*" (Talent Manager)
	Boundary Spanning Role	- "*The training that my colleague did was also funded. So, let's say, the organization is giving financial support to the project. Having a specialized person helps a lot.*" (Chief Quality Officer) - "*Within my unit, it's my colleague* (Recruitment Specialist and D&I Expert) *that plays the central role, she owns an experience of thirty years in D&I issues.*" (Talent Manager)
Symbolic Boundaries	Communicative and Motivational Boundaries	- "*I don't know how much employees are aware of this new tool (GEP) and these new (D&I) initiatives because it's not so widespread such thought on diversity issues.*" (Training Manager) - "*To be honest, I don't know the goals of GEP.*" (Study Coordinator) - "*I heard something about it (GEP), but the first activity is this interview.. Maybe it is not felt. This is not a priority."* (Clinical Researcher Assistant) - "*Yes, I remember, the e-mails (about the D&I month), but as a matter of deadlines, they were left out among things. Things that may be sort of secondary I leave out, although they certainly will have been interesting.*" (Study Coordinator)
	Vertical Boundaries	- "*For instance, we can consider the Gender Medicine committee a leadership committee, while the We for Women committee a staff community.*" (Recruitment Specialist and D&I Expert) - "*Our top managers have every interest that the project will work because I repeat, it's among the projects that have been launched to improve organizational well-being, so it's also top managers and directors' goal.*" (Chief Quality Officer)

IMPLICATIONS AND CONCLUSION

Theoretical Implications

The limited understanding of the transfer of D&I practices motivated us to analyze the specific forms of institutional work - practice work and boundary work - that an MNE carries out to transfer these practices between subsidiaries located in different country contexts, the actors at play, and their role in the practice transfer. Our main goal was to expand upon the resources-based argument proposed by Ferner et al. (2005) and develop a framework that theorizes how specific actors, within an MNE, engage in institutional work to facilitate the transfer of D&I practices. Establishing new boundaries that legitimate and diffuse new practices, poses the conditions to involve the entire organization to change. Notwithstanding the relevance of the higher organizational level's blessing, this study suggests that the change needs to be shared and embraced by all MNE employees, regardless of the unit to which they belong or their role in the organization. In this regard, boundary work and the formation of boundary spanners would play a key role through setting formal circumstances (e.g., meetings of technical committees) where organizational actors advance the change and discuss its progress and future developments. However, in the beginning, these opportunities may be restricted only to those who are leading the change, while others may want to maintain the *status quo*. Therefore, our study echoes Zietsma and Lawrence's argumentations (2010: 212) regards the relevance of encouraging a "recursive and mutually supportive relationship" between practice work and boundary work to set an adequate change scenario in which actors welcome the new practices and do not tend to return to their previous ways of thought and acting. The findings of the research aim to offer three main contributions. First, we shed light on how MNEs transfer D&I practices between subsidiaries located in different institutional contexts. Since diversity acquires distinct meanings across countries (Ferner et al., 2005) and individuals (Dass & Parker, 1999), we leverage a micro-level of analysis and unearth individual agency forms underlying the institutional work necessary to transfer D&I practices. On the one hand, we show the importance of *local champions* as drivers that support organizations to trigger the practice transfer and provide an opportunity to create a fit between the parent company's practices and local constraints. On the other hand, we illustrate the importance of entrusting *boundary spanning roles* to specific MNE actors and/or units to favor the transfer of new practices. Top managers of the subsidiary where the practice is transferred, and the specific units (e.g., H&R unit) can facilitate the transfer by participating in the annual meetings organized by the parent company, sharing the progress and challenges of the practices' adoption and its future development with foreign colleagues. Moreover, we find that *symbolic boundaries* emerge when an organization performs a transfer of practices, and they reveal an unequal involvement of employees in the implementation of new practices. As a result, besides the boundary spanning roles, boundary *spanners* within the single subsidiary are needed. In this regard, specific organizational settings are formed to undermine symbolic boundaries, paving the way for the formation of new boundaries, and coordinating all efforts of the members of different groups towards shared goals. In sum, we shed new light on institutional work in the international business field as a promising research area to set a broader vision of agency connected to institutions (Gutierrez-Huerter O et al., 2020; Saka-Helmhout & Geppert, 2011). In particular, we offer a view of how actors engage in institutional work and carry out specific activities that lie at the heart of the D&I practices transfer.

Second, we extend studies on the transfer of organizational practices by offering a case focused on the transfer of D&I practices across institutional contexts since it seems international business scholars are yet to realize the full potential of diverse and inclusive workplaces as a source of organizations' well-being. Arguably, MNEs can benefit from building diverse and inclusive workplaces involving employees with different characteristics (race, gender, language, culture, religion, and so on) that can support organizations in fostering sustainability. Therefore, we offer complementary insights to the work of Ferner et al. (2005). While Ferner et al. (2005) explore *to what extent* subsidiaries accommodate the transferred practices and argue that subsidiary managers may leverage power resources to manipulate the content of D&I practices, we deeply investigate *how* the transfer occurs, by undertaking a micro-level of analysis and shed light on individual agency forms that may facilitate or deter the transfer.

Third, we contribute to D&I research (Yang & Konrad, 2011) by investigating how MNEs may organize activities to render workplaces diverse and inclusive. Our findings dispute Yang and Konrad's (2011: 8) argumentation stating that "formalized practices have the potential to penetrate across the organization, unlike informal actions by individual diversity champions." We unveil that the local champion's and boundary spanning roles, although they are not formalized, are crucial in the transfer of D&I practices in the organization. Additionally, we argue that D&I practices are institutionally embedded and require the employees' personal adherence to their institutional logics, limiting the possibility of carrying out a codified, formalized, and standardized practice transfer.

This chapter delves into the transfer of D&I practices, spurred by the local subsidiary's decision to participate in the Horizon call. This pivotal decision acted as a catalyst for the MNE, setting in motion the complex process of practice transfer. As we contemplate future research directions, it becomes pertinent to examine scenarios where external triggering events are absent, compelling MNEs to look inward for motivation to initiate the transfer process. In such contexts, numerous endogenous factors come into play, offering compelling incentives for driving change. For instance, the organizational culture of the MNE can exert significant influence, with boundary-spanning roles assuming heightened importance in fostering cross-cultural collaboration within the organization. Consequently, exploring how MNEs navigate the absence of external catalysts and leverage internal drivers to foster practice transfer opens up avenues for enriching our understanding of D&I initiatives within MNEs.

Practical Implications

When new practices are transferred within the organization, managers are demanded to consider what forces can facilitate or deter the transfer and which organizational actors can work for their adoption. Specifically, the proposed case study may be able to alert managers to boundary spanning roles and boundary spanners, symbolic boundaries, and local champions. In this perspective, we advanced a handful of practical suggestions to help parent company's and subsidiaries' executives manage and avoid failing the transfer of D&I practices.

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CONCLUSION

Sustainability presents multifaceted challenges, requiring firms not only to comply with the mandatory rules and laws that define its content but also to respect the unwritten yet widely shared rules, involving social and cultural values, of the institutional contexts in which they operate (Huq et al., 2014). The evolution of MNEs, that are no longer to consider mere institutional takers, but agents able to play an active role and adopt intentional actions, suggests that they possess the capacity to influence and modify institutions in pursuit of sustainability.

This dissertation centers on the challenges encountered by MNEs as they navigate the realm of sustainability, delving into potential solutions that may be employed. The structure of this dissertation reflects the three primary investigation chapters it encompasses, and is structured as outlined below:

1. Chapter I: "Multinational enterprises and global supply chain sustainability: A multilevel framework and research agenda".
2. Chapter II: "Home country uncertainty and multinational enterprises' sustainability performance".
3. Chapter III: "Institutional work and the transfer of diversity and inclusion practices within a multinational enterprise".

The subsequent section delves into the principal insights of each chapter within the dissertation. Building upon these significant findings, it subsequently explores the contributions of each chapter to the management theories prevalent in the international business domain and in sustainability studies. Moreover, a set of practical guidelines to address sustainability challenges for managers is provided.

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Chapter one enhances the understanding of the sustainability challenges MNEs face in their global supply chains. Addressing sustainability in global supply chains is particularly difficult since they present geographically dispersed operations and involve multiple actors. This study highlights the pivotal role MNEs play in the GSCs' path towards sustainability. By formulating private codes of conduct, engaging in standard-setting partnerships with social actors, and influencing public actors, MNEs can effectively address sustainability within their supply chains. The multilevel framework proposed in this chapter offers four main contributions. First, it proves the presence of private, social, and public governance systems intersecting GSCs that share action towards sustainability. Second, it sheds light on the complex interplay between formal and informal mechanisms within each governance system and the relative paths through which actors may shape new sustainability strategies and practices. Third, it discusses the role of MNEs that, acting as bridges between the multiple systems of governance, possess the agency to drive transformative change towards sustainability and set collaborative relationships with suppliers, engaging with social and public actors. Finally, we unveil promising directions for future research and addressing the limitations within the current literature.

Chapter two unveils challenges posed by the home country context on MNEs' strategies and investment decisions, and their implication for sustainability performance. Indeed, sustainability requires MNEs to reprioritize budgets and reallocate resources to integrate sustainability activities into their financial planning and investments (Chakrabarty & Wang, 2012). However, this might be particularly demanding for MNEs that cope with institutional uncertainties at home and present resource constraints. The chapter reveals the negative impact of home country uncertainty on MNEs' sustainability performance due to financing constraints arising from the need to compensate for poor-quality institutions. However, the study also demonstrates that MNEs can mitigate these constraints by strategically investing in countries with favorable fiscal regulations, thereby freeing up resources to enhance sustainability performance. Through fiscal arbitrage activities and leveraging tax benefits in host countries, MNEs design alternative solutions to address sustainability even in the face of uncertainty in their home country contexts. Furthermore, the availability of financial resources within the firm proves instrumental in alleviating contextual financing constraints, emphasizing the importance of financial resources to address sustainability.

Chapter three adopts a micro-analytic perspective to delve into the challenges MNEs face to transfer sustainability practices from one context to the other. This analysis is complementary to the ones proposed in the other chapters that, by adopting a more macro-perspective, do not capture the challenges underlying the actual transfer of practices between different institutional contexts. This investigation places a specific emphasis on the establishment of diverse and inclusive workplaces, a critical component of sustainable development (Forbes, 2023). The chapter analyzes the transfer of D&I practices within an MNE, focusing on the transfer from the parent company to a foreign subsidiary. Emphasizing the necessity for MNEs to be sensitive to institutional contexts, the study underscores the unique challenges posed when endeavoring to cultivate diverse and inclusive workplaces across all subsidiaries. This sensitivity is crucial due to the varying perceptions and approaches to D&I topics in different countries, often necessitating a shift in employees' attitudes. The chapter illuminates the paramount role of *local champions* and *boundary spanners* in facilitating the transfer of D&I practices within an MNE while acknowledging the emergence of symbolic boundaries that could impede this process. Thus, the chapter provides valuable insights into the specific forms of institutional work essential for successfully transferring D&I practices on behalf of MNEs operating across diverse institutional contexts.

Overall, this dissertation offers significant theoretical contributions by unraveling the intricate dynamics of sustainability challenges within MNEs. First, this dissertation contributes to international business studies by acknowledging the agentic role of MNEs in addressing sustainability challenges. Moving across multiple governance systems and diverse institutional contexts, MNEs actively engage with stakeholders, adapt their strategies, and invest in training their internal human capital for sustainable behaviors. These proactive measures create an enabling environment to address sustainability challenges, combining internal strengths and capabilities to collaborate with external actors (Arya & Salk, 2006; Lumpkin, & Bacq, 2019). Through this dissertation, we have analyzed the solutions employed by MNEs such as emphasizing collaboration, leveraging financial opportunities, nurturing local champions, and employing specific forms of institutional work. Thus, MNEs, as agents, have the potential to drive transformative change and steer institutions towards sustainability.

Second, this work enriches the domain of studies on sustainability strategies (Matten & Moon, 2008) and its contextualization (Bansal & Bogner, 2002; Campbell, Eden, & Miller, 2012; Julian & Ofori-Dankwa, 2013), by shedding light on the importance of MNEs' awareness of the institutional contexts to achieve sustainability objectives. One of the significant challenges faced by MNEs is comprehending the diverse ways sustainability - encompassing various social and environmental aspects – may be addressed. Moreover, an additional layer of complexity arises when addressing sustainability across both home and host countries. The intricacies of reconciling diverse cultural values, regulatory landscapes, and societal expectations demand a nuanced and adaptive approach. The dissertation underscores that the effectiveness of sustainability strategies hinges on the capacity of MNEs to tailor their initiatives to align with the unique characteristics of each country of operation. The difficulties become particularly pronounced when considering the potential dissonance between home and host countries in terms of sustainability priorities and approaches (Manning et al., 2012; Reimann, Rauer, & Kaufmann, 2015). MNEs grapple with the need to strike a delicate balance between adhering to their global sustainability agenda and respecting the localized nuances that might necessitate tailored strategies and solutions (Castaldi et al., 2023).

Finally, policymakers and managers find valuable insights in this dissertation for the formulation of policies and strategies to enhance sustainability practices within international business. By acknowledging the sustainability challenges at both global and local levels, they may design solutions and provide support to make firms fully aware of the multiple layers of institutions at play and the influence of external actors' behaviors in their contribution to sustainability.

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