

Are multinationals engaged in sustainability? An analysis based on their home-country progress toward the Sustainable Development Goals (SDGs)

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Abstract

The United Nations' Sustainable Development Goals (SDGs) provide a comprehensive framework for global sustainability, adopted by both UN member states and multinational enterprises (MNEs). However, aligning the efforts of the private and public sectors remains challenging. This study examines how MNEs engage with the SDGs, focusing on the impact of their home countries' SDG performance. Using institutional theory, we test two mechanisms—mimetic isomorphism and liability of origin—by analyzing sustainability reports from 150 MNEs across 23 countries. Our results suggest that MNEs based in home countries with lower SDG progress engage more with the SDGs, indicating a liability of origin effect. However, at the individual SDG level, the picture is more complex, hence showing different patterns. This study contributes to understanding MNE SDG engagement and provides guidance for businesses and policymakers.

Keywords: Home-country institutional profile, institutional theory, liability of origin, multinational enterprises, sustainable development goals, Agenda 2030.

JEL classification: I14, I15, O10, Q20, Q40.

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1 Introducción

In 2015, the United Nations (UN) introduced the Sustainable Development Goals (SDGs) as part of the 2030 Agenda for Sustainable Development (United Nations, 2015). These 17 interrelated goals aim to address a broad range of global challenges, including poverty eradication, climate action, clean energy, gender equality, and sustainable economic growth. These SDGs provide a common framework for governments, businesses, and civil society to work together toward achieving a sustainable future (Bansal & Song, 2017). While these goals are aspirational,

they are also practical, with specific targets and measurable indicators that can guide action on both national and organizational levels.

In this regard, multinational enterprises (MNEs) play a pivotal role in advancing the SDGs. Given their global presence, access to resources, and influence, MNEs can contribute to sustainable development by aligning their business strategies with the SDGs (Bose & Khan (2022)). However, despite the significant potential for impact, how MNEs engage with the SDGs varies widely, what merits a more profound analysis. Since the SDG framework is

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voluntary, meaning that there are no formal enforcement mechanisms, and companies are not legally obligated to meet the goals, such engagement is often driven by external pressures, such as stakeholder expectations, market opportunities, or the need to improve a company's global reputation.

In this context, a key question arises: How do MNEs engage with the SDGs, and what factors shape their level of engagement? This study investigates whether MNEs' sustainability efforts are influenced by their home countries' performance on the SDGs, using institutional theory (Campbell, 2007) as a guiding framework. Specifically, the study looks at how institutional pressures, such as national policies and stakeholder expectations, influence MNEs' alignment with the SDGs.

The study focuses on two key mechanisms: mimetic isomorphism (DiMaggio & Powell, 1983) and liability of origin (Marano *et al.*, 2017). These concepts offer contrasting explanations for why MNEs might engage with the SDGs. Mimetic isomorphism suggests that companies emulate the practices of successful organizations or countries to enhance their legitimacy, while liability of origin proposes that MNEs from countries with weaker sustainability profiles may engage more deeply with the SDGs to overcome negative perceptions. Additionally, this work considers the different geo-institutional groups where the companies belong, namely Continental European, Anglo Saxon and Asia Pacific.

2 Theoretical framework

Mimetic isomorphism vs liability of origin

The central objective of this study is to explore the relationship between an MNE's home-country sustainability profile and its engagement with the SDGs. In this regard, we aim to determine whether MNEs' engagement with the SDGs is more closely aligned with

mimetic isomorphism or liability of origin. These two concepts form the foundation of the study's theoretical framework, derived from institutional theory (Campbell, 2007).

- Mimetic isomorphism occurs when organizations imitate or model themselves after successful organizations or systems (DiMaggio & Powell, 1983). In the context of SDGs, this would mean that MNEs are likely to align their sustainability strategies with the practices and priorities of their home countries. For example, if an MNE is headquartered in a country that is a global leader in environmental sustainability, it may focus on SDGs related to climate action or renewable energy to reflect its national context. Mimetic pressures often arise in response to uncertainty, as companies seek to enhance their legitimacy by following successful models.
- Liability of origin suggests that MNEs from countries with weaker sustainability profiles face additional pressures to engage with the SDGs (Marano *et al.*, 2017). This concept is rooted in the idea that stakeholders may view companies from less sustainable countries with skepticism, and these companies must therefore work harder to legitimize themselves in global markets. In this case, an MNE may engage more deeply with the SDGs, particularly in areas where its home country is lacking, to improve its global image and overcome the "liability" associated with its origin.

Geo-institutional groups

Despite we analyze MNEs that operate widely, we consider that they may be differently affected by supranational geographical and cultural institutional influences (Ordóñez-Ponce & Talbot, 2023). In this regard, we follow the seminal work of Berry *et al.* (2010), that employs an "administrative" perspective for grouping countries with similar institutional frameworks. More specifically, we consider the following

three geo-institutional groups: Anglo-Saxon, Continental Europe, and Asia-Pacific.

Each geo-institutional group faces distinct supranational pressures based on their cultural, legal, and institutional contexts. In the Continental European group, for instance, strong regulatory frameworks and robust welfare systems compel companies to align closely with the SDGs, leading to high levels of engagement in sustainability initiatives. Conversely, the Anglo-Saxon group experiences less stringent regulatory pressures, resulting in more selective engagement with the SDGs, often focused on profitability rather than comprehensive sustainability goals. Meanwhile, the Asia-Pacific group is characterized by a mix of government involvement and cultural influences that drive moderate engagement with the SDGs, particularly those that align with national priorities and development agendas.

In line with this reasoning, we suggest the following propositions:

- Proposition 1 (P1): MNEs engage more with the SDGs overall when their home country scores higher on SDG performance. This mimetic pressure drives companies to align with their home country's sustainability strengths to meet stakeholder expectations and enhance legitimacy.
- Proposition 2 (P2): MNEs engage specifically with individual SDGs where their home country performs well. This behavior reflects mimetic isomorphism, where firms adopt practices that align with their home country's strengths in particular areas.
- Proposition 3 (P3): MNEs from home countries with lower overall SDG performance engage more actively with the SDGs overall to counteract the liability of origin. This substitution approach helps them mitigate negative perceptions in global markets.
- Proposition 4 (P4): MNEs focus on individual SDGs where their home country performs poorly, substituting for these deficiencies to demonstrate responsibility and gain legitimacy abroad.
- Proposition 5 (P5) and 6 (P6): The relationship between MNE SDG engagement and home-country SDG performance varies across geo-institutional groups, such as Anglo-Saxon, Continental Europe, and Asia-Pacific regions. These cultural and legal traditions influence how MNEs approach overall and specific SDG engagements.

As it can be drawn from the above propositions, they refer to the main ideas of our work, namely isomorphism (DiMaggio & Powell, 1983), liability of origin (Marano *et al.*, 2017), and geo-institutional pressures (Berry *et al.*, 2010). Thus, mimetic pressures are related to P1 and P2; liability of origin is related to P3 and P4; and geo-institutional influences are related to P5 and P6.

3 Data and methodology

To explore these dynamics, the study analyzed the sustainability reports of 150 MNEs included in the S&P Global Sustainability Yearbook (S&P Global, 2020). These companies were selected based on their inclusion in the "Gold," "Silver," and "Bronze" categories, indicating their top-tier performance in sustainability efforts. The sustainability reports were assessed using a text analysis algorithm, which measured the extent to which the language in these reports aligned with the SDG framework.

The algorithm used a technique called Tf-idf Vectorization (term frequency-inverse document frequency), which identifies key terms from each SDG's official descriptions and compares them to the text of MNE sustainability reports (Pedregosa *et al.*, 2011). This allowed the researchers to calculate an SDG engagement

score for each company, both overall and for individual SDGs. Our study also used data from the Sustainable Development Solutions Network (SDSN) to assess each company's home country's progress toward the SDGs. This data provided a numerical score for each country's performance on all 17 SDGs, which was then compared to the MNEs' SDG engagement scores.

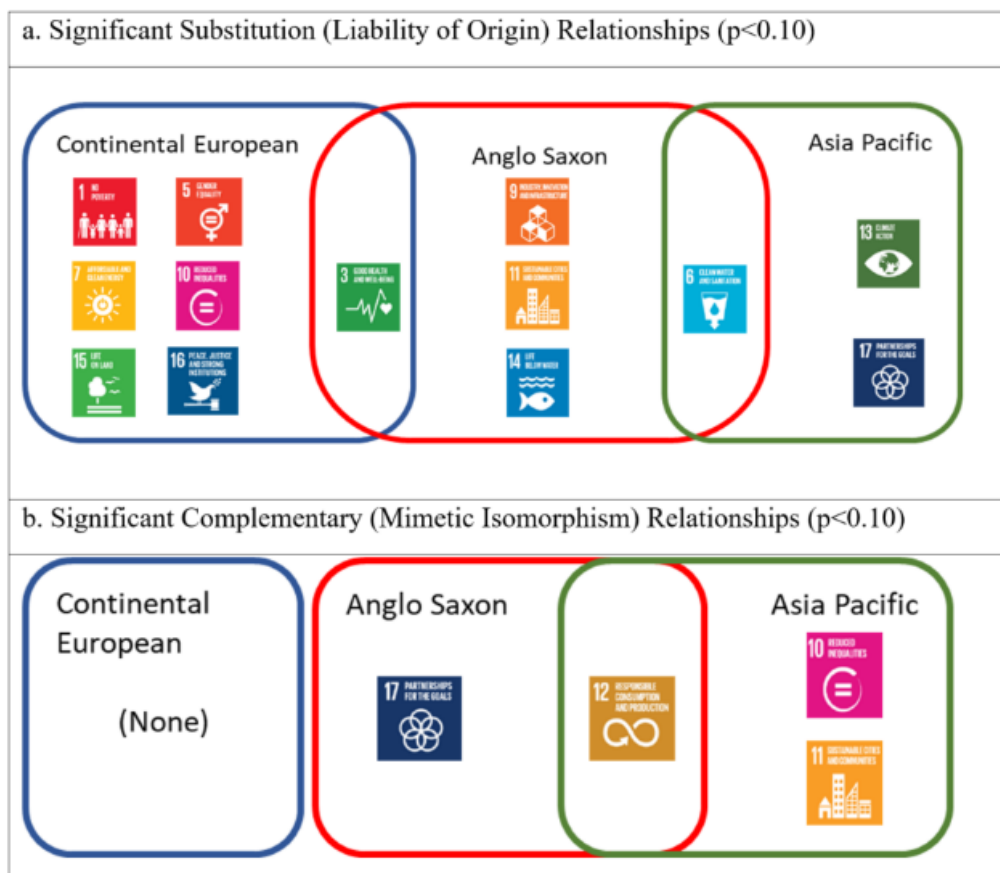
4 Key findings

We observe that MNE engagement with the overall language of the SDGs is influenced by their home-country SDG score, supporting the liability of origin mechanism (Proposition 3) but not mimetic isomorphism (Proposition 1). At the individual SDG level, mimetic isomorphism (Proposition 2) is observed only for responsible consumption and production, while liability of origin (Proposition 4) is evident across several SDGs such as no poverty, zero hunger, and gender equality. Neither mechanism is supported in the remaining SDGs. When examining different geo-institutional country groups, we find support for Proposition 5, showing that the liability of origin mechanism varies across groups. Further analysis of individual SDGs (Proposition 6) reveals differences in how mimetic isomorphism and liability of origin manifest across groups.

The key findings are depicted in Figure 1, and are outlined below.

- **Predominance of Liability of Origin:** The research indicated that MNEs generally exhibited a stronger tendency to engage with the SDGs when their home countries demonstrated lower progress on these goals. This suggests that MNEs from countries with weaker sustainability profiles actively compensate for their home country's shortcomings by aligning more closely with the SDGs, which is in line with the work of Leyva-de la Hiz et al. (2019). This phenomenon aligns
- with the liability of origin theory, whereby MNEs seek to enhance their legitimacy in global markets by adopting sustainability initiatives that reflect the SDGs.
- **Mixed Engagement Across Individual SDGs:** While the overall trend indicated a liability of origin effect, the study found nuanced engagement patterns at the individual SDG level. Some MNEs displayed mimetic behavior by aligning their sustainability efforts with their home countries' strengths. For instance, companies from countries with robust environmental policies tended to engage more with SDGs related to climate action or renewable energy. Conversely, MNEs from countries with lower performance on social issues, like gender equality, were found to prioritize SDGs that addressed these gaps, demonstrating the complex dynamics between national context and corporate behavior.
- **Geo-Institutional Group Variability:** The findings highlighted significant variability in SDG engagement among the three geo-institutional groups. MNEs from Continental European countries consistently showed high levels of engagement with a broader range of SDGs, reflecting the strong social welfare culture and regulatory pressures present in those countries. In contrast, Anglo-Saxon firms tended to exhibit selective engagement, focusing primarily on goals that offered clear business benefits, while MNEs in the Asia-Pacific region showcased moderate engagement driven by government policies and cultural values that prioritize long-term sustainability. In this regard, Figure 1 provides a clearer description about this SDG engagement according to the geo-institutional group. For example, the Anglo-Saxon group only shares SDG3 (Health and wellbeing) with Continental Europe, and SDG6 (Clean water and sanitation) with the Asia-Pacific group.

Figure 1. Variation across geo-institutional groups in relationships between firm SDG engagement and home-country SDG progress



Limitations

Our work is not exempt from limitations. First, we recognize that our analysis relies on sustainability reports, which, while valuable, may not fully capture the actual sustainability practices of MNEs. These reports are often crafted to present companies in a positive light, potentially leading to discrepancies between reported intentions and real actions. Additionally, we note that our sample consists of firms from the S&P Global Sustainability Yearbook, which focuses on large, sustainability-focused companies, potentially limiting the generalizability of our findings to smaller firms or those less engaged with the SDGs. Furthermore, the study is cross-sectional, meaning it examines MNEs at a specific point in time, which restricts our ability to analyze

changes in SDG engagement over time. We suggest that future research could expand on these limitations by considering alternative data sources, including smaller firms, and examining longitudinal trends in SDG engagement.

Summary and contributions

In this work, we explore two key mechanisms that influence multinational enterprises (MNEs) in their engagement with the Sustainable Development Goals (SDGs): mimetic isomorphism and liability of origin (DiMaggio & Powell, 1983; Marano *et al.*, 2017). We observe that the liability of origin effect is more salient than mimetic isomorphism, i.e., MNEs from countries with weaker SDG performance engage more actively with the SDGs to overcome the

negative perceptions tied to their home country's shortcomings.

We also note that these mechanisms can coexist and vary across specific SDGs. Additionally, we recognize that regional and cultural factors significantly influence how MNEs engage with the SDGs. For example, firms from Continental Europe tend to exhibit stronger overall SDG engagement compared to those from Anglo-Saxon or Asia-Pacific regions. Furthermore, our analysis shows the complexities of SDG engagement, such as the risk of SDG cherry-picking or SDG-washing, where firms may selectively report on certain goals without substantial action. Despite these challenges, our work emphasizes the importance of cross-sector collaboration between the public and private sectors to address global sustainability challenges.

Our study contributes to institutional theory (Campbell, 2007), by highlighting how institutional pressures influence company behavior, even in the context of voluntary SDGs. It reinforces the importance of the liability of origin and mimetic isomorphism mechanisms. The results show that home-country SDG progress and geo-institutional context play key roles in shaping MNEs' sustainability engagement. For policymakers, we suggest promoting public-private partnerships focused on specific SDGs, while managers might direct their efforts to areas where progress is limited but fit with the company's capabilities. Our findings indicate that the complexity of the SDGs requires nuanced strategies for engagement and collaboration. This study contributes to understanding the complexities of the SDGs and the varying institutional factors that influence MNEs' actions toward sustainable development.

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