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INSTITUTIONAL PRESSURES AS DRIVERS OF TRIPLE BOTTOM LINE SUSTAINABILITY: THE CASE OF MNCS' PURCHASING FUNCTION

ABSTRACT

This study examines the relationship between institutional pressures, including mimetic, coercive, and normative pressures, and triple bottom line sustainability, comprising of environmental, social, and economic components, of MNCs purchasing function. In order to examine the relationships unique to MNCs, we contrast the findings to those generated by the case of SMEs in a structural equation model using data from an international survey study. We find some communalities, but also differences in the results between the MNCs as opposed to SMEs. For MNCs we find support for the impact of mimetic pressures on environmental and social sustainability, as well as for the moderating relationship of normative pressures on the relationship between coercive pressure and social sustainability.

Keywords: MNC, sustainability, triple bottom line, institutional theory, institutional pressures

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INTRODUCTION

Multinational corporations (MNCs) face varying demands due to the complexity of their daily business operations and their exposure to versatile environments representing ever-increasing pressures, including those related to sustainability. Little do we know, however, what drives MNCs to focus on sustainability performance in particular within their business functions. Assumingly there are both internal as well as external factors driving this development, and we focus in this study on the latter as represented by institutional pressures. While existing research provides predominantly individual case focus and snapshots of specific situations, (e.g. Pinske et al., 2010; Pagell & Wu, 2009), our study aims for establishing more general understanding of these external drivers.

Despite the increasing importance of sustainability in the international business environment, existing research has not necessarily increased clarity in our understanding of the notion. Sustainable purchasing, as a prominent factor of sustainability enhancement within organizations, has often been discussed and rather redefined without shedding a light on its drivers or inhibitors. External influences, such as institutional pressures (DiMaggio and Powell, 1983), arguably appear to play a significant role particularly considering the vast media attention paid to sustainability challenges (e.g. Forbes, 2014; The Economist, 2013).

Institutional theory concerns with organizations' move towards legitimacy and thus implies the adaptation of institutionalized social and environmental norms, which ultimately results in isomorphism (DiMaggio and Powell, 1983). Stakeholder demands, as identified by Benn et al.

(2014), clearly enforce pressures on companies (Kauppi, 2013; Zhu and Sarkis, 2007; Tate et al., 2010; Sarkis et al., 2011).In institutional theory research, however, two out of the three sustainability domains are discussed: the social and economic variant of institutional theory (Kauppi, 2013). The economic component, which is equally part of the Triple Bottom Line sustainability discussion (Elkington, 1998), should however not be disregarded. Thus, the three types, *coercive, mimetic, and normative pressures* are suggested to affect sustainability practices significantly.

Therefore, we aim at investigating the relationship between institutional pressures and triple bottom line sustainability in MNCs' purchasing function, as well as comparing it with this relationship in other companies, i.e. small and medium sized enterprises. In order to examine this, we build on an international survey (International Purchasing Survey II) analyzing purchasing strategies in four countries (Finland, Germany, Ireland and Italy). The paper is structured as follows. We first review the conceptual background and subsequently develop the hypotheses to be studied. This is followed by the methodology section. Thereafter we describe our findings, discuss these, and finally draw conclusions.

CONCEPTUAL BACKGROUND & HYPOTHESIS DEVELOPMENT

In reviewing the literature, we identify three key areas for our study: MNCs in an institutional context, sustainable purchasing in MNCs, and sustainable purchasing in an institutional context. By first reviewing the aspects addressed in international business literature, we thereafter take the perspective of the purchasing business unit. The key constructs (triple bottom line and institutional pressures) underlying this study are illustrated in Figure 1.

<table>
<tr><td></td><td colspan="3">Institutional Theory</td></tr>
<tr><td>Environmental Sustainability</td><td rowspan="3">Mimetic Pressure</td><td rowspan="3">Coercive Pressure</td><td rowspan="3">Normative Pressure</td></tr>
<tr><td>Social Sustainability</td></tr>
<tr><td>Economic Sustainability</td></tr>
</table>

Figure 1. *Key constructs of the study*

MNCs in an Institutional Context

Operating in versatile environments imposes specific challenges on MNCs. The differing institutional environments faced, in fact, often require adoption of business practices to the host country environment (Tan and Wang, 2011).

The response to these environments may take various forms. Tan and Wang (2011) argue that companies would choose their most suitable "configuration of core values and peripheral components that align with institutional environment in host countries" (373). Additionally, Regnér and Edman (2014) identify key enablers – multinationality, foreignness and institutional ambiguity

–, mechanisms – reflexivity, role expectations and resources –, and four strategic responses – innovation, arbitrage, circumvention, and adaptation.

The three types of institutional pressures, mimetic, coercive, and normative (DiMaggio and Powell, 1983) consequently find specific applications in the MNC context. While the triple bottom line – economic, social, and environmental – factors mediate the relationship between parent and subsidiary company (Ryan and Gibbons, 2011), institutional pressures' impact on these factors are specific to the respective environment (Escobar and Vredenburg, 2011). Thus, Escobar and Vredenburg (2011) argue that normative and coercive isomorphism are locally driven, while mimetic isomorphism may occur on an MNC-wide level. Furthermore, Perego and Kolk (2012) identify a time component to the adoption of environmental sustainability in MNCs, where mimetic pressure particularly affects the adoption of environmental sustainability in MNCs and plays a less important role in reinforcing it. This leads to hypothesis 1.

H1a. Mimetic pressure positively impacts environmental sustainability of MNCs.

When considering the fact that local environments influence the relationship between institutional pressures and corporate sustainability most significantly, investigation of non-MNC specific literature reveals further relations. Ortiz-de-Mandojana et al. (2014) find that normative pressures positively encourage directors and separate board chairs to encourage the adoption of environmental sustainability, while Perez-Batres et al. (2010) generally find a positive impact of normative and mimetic pressures on sustainability adoption. Consequently:

H1b. Normative pressure positively impacts environmental sustainability of MNCs.

Sustainable Purchasing in MNCs

International business literature addresses the geographically diverse nature on MNCs sourcing practices in which the aim is to optimize inputs through leveraging global market opportunities (Buckley, 2007). A major focus has for many years been the decision to outsource or offshore operations (Buckley & Ghauri, 2004), although the focus has somewhat shifted in recent years.

Multinational corporations, (MNCs) have in recent years faced particular pressure to move beyond mere profitability targets and establish long-term accountability (Chen et al., 2009). Due to the different business environments faced by these companies, the focus has clearly been on either environmental or social sustainability, depending on the industry (Haugh & Talwar, 2010).

Given the nature of MNCs and their global actions, purchasing has in fact been a critical research topic within recent years (Gelderman & Semeijn, 2006). Particularly collaborations in emerging markets, where MNCs source from frequently, are important. Perez-Aleman and Sandilands (2008) find collaborations with non-governmental organizations to allow for required transparency and traceability in MNCs supply chains. These developments show the importance of gaining more understanding of MNCs' purchasing function, and sustainable purchasing, in particular.

Sustainable Purchasing in an Institutional Context

Upon understanding the importance of the local context, the examination of the purchasing specific context furthermore reveals specific relationships. Hsu et al. (2014) find that even on the purchasing level, headquarters have little influence on subsidiaries' green purchasing, which refers to "managing all aspects of the upstream component of the supply chain to maximize *triple bottom line performance*." (Pagell et al, 2010: 58). In fact, green purchasing practices are rather affected by local environmental influences (Hsu et al., 2014).

Concerning DiMaggio and Powell's (1983) three types of institutional pressures, different observations have been made with regard to the purchasing function. Grob and Benn (2014) find that coercive pressures, in the light of social and environmental sustainability, influence the adoption of sustainable procurement practices. Moreover, coercive pressure positively impacts environmental sustainability practices (Kauppi, 2013; Zhu and Sarkis, 2007), which similarly applies to normative pressure (Zhu and Sarkis, 2007). In addition to the hypotheses developed above, this leads to the following hypothesis.

H2a. Coercive pressure positively impacts purchasing unit's social sustainability.

Social sustainability is often addressed in combination with environmental sustainability. While coercive pressures are expected to positively affect social sustainability practices (Kauppi, 2013), normative pressures may negatively affect said positive relationship (Benn et al., 2014) and thus act as a moderator.

H2b. Normative pressures act as a moderator on the relationship between coercive pressure and social sustainability.

Economic sustainability is the underlying reason for the existence of a firm, which implies different effects of institutional pressures. According to Zhu and Sarkis (2007), coercive pressures affect economic sustainability practices negatively. Moreover, they find that mimetic pressure may affect economic sustainability positively. Normative pressures, however, may have a negative effect on the positive impact of mimetic pressures to economic sustainability (Benn et al., 2014) and thus act as a moderator.

H3a. Coercive pressures negatively impact the economic sustainability practices of an organization.

H3b. Mimetic pressures positively impact the economic sustainability practices of an organization.

H3c. Normative pressures acts as a moderator of the relationship between mimetic pressures and economic sustainability practices.

METHODOLOGY

This study tests the model illustrated in Figure 2 below in a structural equation model, according to Byrne (2012).

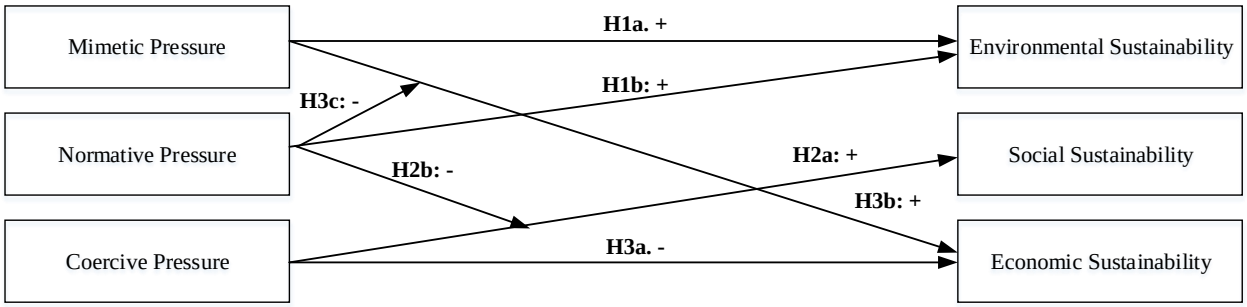

Figure 2. *Model of hypothesized relationships*

Sample and Procedure

The sample, which contains 305 observations, consists of companies participating in the International purchasing survey (IPS) II out of which 123 were MNCs and 182 were not MNCs. Data collection took place during 2014 in Finland, Germany, Ireland, and Italy from companies with at least 50 employees to allow for category-specific strategies and practices to be in place. The survey was originally developed in English. As the survey is carried out in multiple countries, it was then translated to local languages using the TRAPD-approach: translation, review,

adjudication, pre-testing and documentation (Harkness, 2003). Piloting was carried out in each country in the respective local language as well as English in selected cases. The surveyed organizations were randomly selected from the manufacturing and service sector. This selection has been made in order to avoid ambiguity in the use of industry-specific purchasing terms and language in line with Flynn et al. (1990). All countries followed same data collection procedures to ensure consistency.

Our databases across all countries included in total 20 515 eligible companies. Of these 3 068 were randomly sampled and 3 059 were contacted, while 1 105 were reached. A total of 656 agreed to participate, resulting in the 305 useable responses and a subsequent response rate of 46% of those who agreed to participate. The average size of the surveyed firms included a revenue of EUR 5.6 billion and 5 287 employees (the mode being 60) out of which an average of 36 were assigned to the purchasing function.

A senior purchasing professional was selected to respond to the survey within the organizations. This is due to the fact that strategy-level examination of purchasing may well be represented by one sufficiently senior individual according to Bowman and Ambrosini (1997). The selected companies were first approached by phone to identify the most suitable respondent and explain the research and gain their commitment to participate. IPS II collects data at purchasing category level, and the respective purchasing category was selected together by the respondent and the research team member over the phone to ensure a unified understanding of category level across all respondents. In the survey, we collected company data, purchasing function level data, data on category practices, and category performance. The institutional items included here are located at the purchasing function level, while the sustainability items are located at the category level.

Biases were accounted for in the survey and protocol design as well as data analysis. To mitigate the risk of non-response bias, approaches to facilitate a high response rate include direct appeal (direct contact by phone), multiple mailings to those who agreed to respond and a promise to share results (in the form of benchmarking reports) (Frohlich, 2002). Nonresponse bias is present when the survey respondents differ in meaningful ways from non-respondents, i.e. generalizability of findings from sample to the population is not possible (Armstrong and Overton, 1977).

In order to account for common method bias, we gathered both subjective as well as objective data already in the design phase (e.g. Brannick et al., 2010). We furthermore placed the questions in different sections of the questionnaire and used different scales for the dependent and independent variables (e.g. Lindell and Whitney, 2001).

Measures

In order to test the hypotheses developed before, we employ structural equation modeling using the following variables. Likert scales ranging from 1 (totally disagree) to 7 (totally agree) respectively was used for all survey items.

Dependent Variables

Environmental Sustainability. In line with Hofer, Cantor, and Dai's (2012) tactical components, we assess environmental sustainability practices using a six-item scale. Sample items include 'suppliers are selected using criteria that include environmental dimensions', 'suppliers are required to adhere to certain environmental standards', 'purchased products are being designed to meet environmental objectives', and 'suppliers receive environmental information and training'.

Social Sustainability. In line with Hofer et al. (2012), ElTayeb et al. (2010), as well as Pagell and Wu (2009), we assess social sustainability practices using a six-item scale. Sample items include 'suppliers are selected using criteria that include ethical/and or social dimensions', 'suppliers are required to adhere to certain ethical and/or social standards', 'suppliers receive information and training on ethics/social responsibility', and 'suppliers are involved in stakeholder dialogue and/or engagement in ethical or social issues'.

Economic Sustainability. In line with Wagner (2005), we capture economic sustainability, operationalized through performance items, and thus use Gonzales-Benito's (2007) cost measures on a seven-item scale. Sample items include 'labor productivity in the purchasing department', and 'low inventory levels'.

Independent Measures

Mimetic Pressure. We measure mimetic pressure in line with Liu et al. (2010) as well as Kauppi (2015) on a three-item scale. Sample items include 'There is a need to imitate purchasing practices of key competitors that serve the same major clients', and 'We actively benchmark the purchasing practices and performance of our main competitors and peers'.

Normative Pressure. Following Kauppi (2015) and Combs et al. (2009) we measure normative pressure on a three-item scale. Sample items include 'purchasing employees in our industry are trained to use similar purchasing procedures', and 'we follow academic research on purchasing to learn about purchasing procedures to implement'.

Coercive Pressure. Building upon Kauppi (2015) as well as Ke et al. (2009) we measure coercive pressure on a 5 item-scale. Sample items of the regulatory component include 'government regulation impacts our purchasing decision making', and 'there are frequent government

inspections or audits on our company's purchasing practices to ensure we comply with laws and regulations'. Sample items of the market pressures include 'our major external customers frequently make requests for us to adopt certain practices or initiatives in our purchasing procedures.

Control Variables. We control for the industry and markets sourced from. We form dummy variables for both to account for both service vs. product industry characteristics and developing vs. developed market aspects.

The statistics for all constructs are available in Table 3.

DATA ANALYSIS

Before testing the hypotheses, we performed a confirmatory factor analysis (CFA) on the independent and dependent variables to evaluate discriminant and convergent validities of the self-reported individual-level measures. In addition, as the variables were collected from a single informant, the presence of common method variance in the data needs to be accounted for. Also the similarity of constructs among the countries is tested. In order to account for the disadvantageous nature of the cross-sectional data set, we built constructs on strong theoretical grounds. The cross-country data set furthermore minimizes biases.

The CFA was conducted using Mplus 7.3 for both models: the MNC and the Non-MNC one separately. As a result of accounting for negative loadings as well as high modification indices the same five items were deleted from each model (Byrne, 2012).

When analyzing the data, we ran a structural equation model with two groups, answers from MNCs and answers from other companies respectively. The model statistics are illustrated in Table 2 below.

Table 2. Model statistics

Model	n	χ^2	df	RMSEA	CFI	TLI	SRMR
CFA							
MNC Model	123	526.652	306	0.077	0.873	0.855	0.094
Not-MNC Model	182	657.705	301	0.081	0.868	0.846	0.083
Structural Model							
MNC Model	123	639.371	348	0.083	0.871	0.852	0.100
Not-MNC Model	182	888.523	405	0.081	0.871	0.854	0.096

As indicated by both of the CFA and structural models' CFI and TLI values, the models provide a relatively good fit, which is supported by the RMSEA and SRMR values. The model for MNCs, however, indicates a slightly better fit, according to the PMSEA, CFI, and TLI values, as opposed to the model covering all other company types.

Table 3. Construct statistics

Measures	**1.**		**2.**		**3.**		**4.**		**5.**		
	MNC	Not	MNC	Not	MNC	Not	MNC	Not	MNC	Not	MNC
1.Environmental Sustainability											
2. Social Sustainability	0.703**	0.640									
3. Economic Performance	0.182	0.061	0.224*	0.206**							
4.Coercive Pressure	0.057	0.132	-0.007	0.071	-0.084	0.220**					
5.Mimetic Pressure	- 0.025	0.134	-0.024	0.153*	-0.088	0.024	0.404**	0.198**			
6. Normative Pressure	0.205*	0.125	0.312**	0.095	0.068	-0.097	0.258**	0.263**	0.297**	0.464**	
M	3.271	2.421	2.981	2.361	3.355	4.218	2.788	3.244	2.733	2.998	4.195
SD	1.081	1.151	1.058	1.201	0.868	0.803	1.148	1.098	1.276	1.059	0.843
CR	0.989	0.990	0.991	0.993	0.930	0.978	0.969	0.974	0.891	0.961	0.780
AVE	0.613	0.599	0.648	0.673	0.411	0.533	0.335	0.329	0. 158	0.358	0.160

The hypotheses resulted in the findings summarized in Table 4.

Table 4. Evaluation of Hypotheses

Hypothesis	**Model result (β)**		**Standard Error**		**p-value**		**Evaluation**	
	MNC	Not	MNC	Not	MNC	Not	**MNC**	**Others (Not)**
H1a. Mimetic pressure positively impacts environmental sustainability of MNCs.	0.285	0.081	0.128	0.084	0.026	0.333	Supported	Not Supported
H1b. Normative pressure positively impacts environmental sustainability of MNCs.	- 0.264	0.099	0.161	0.065	0.100	0.127	Not Supported	Not Supported
H2a. Coercive pressure positively impacts purchasing unit's social sustainability.	0.066	0.082	0.102	0.087	0.502	0.348	Not Supported	Not Supported
H2b. Normative pressures act as a moderator on the relationship between coercive pressure and social sustainability.	0.311	0.146	0.096	0.087	0.001	0.091	Supported	Marginally Supported
H3a. Coercive pressures negatively impact the economic sustainability practices of an organization.	- 0.152	-0.174	0.103	0.092	0.139	0.058	Not Supported	Marginally Supported
H3b. Mimetic pressures positively impact the economic sustainability practices of an organization.	0.291	0.038	0.094	0.104	0.002	0.714	Supported	Not Supported
H3c. Normative pressures acts as a moderator of the relationship between mimetic pressures and economic sustainability practices.	-0.021	0.112	0.177	0.102	0.906	0.274	Not Supported	Not Supported

DISCUSSION

This paper presented seven hypotheses concerning with the effect of institutional pressures on triple bottom line sustainable business practices in the purchasing function of MNCs. By drawing upon international business, institutional theory, and sustainable supply chain management literature we proposed both direct as well as moderating effects of institutional pressures on environmental, social, and economic sustainability adoption. We furthermore distinguished between MNCs and SMEs to determine the relationships unique to the setting of MNCs within their complex business environment.

We find clear differences in the results between the MNCs as opposed to SMEs. First, mimetic pressures significantly impact (H1a; $p<0.05$) environmental as well as (H3b; $p<0.01$) social sustainability in MNCs, but not in SMEs. This may clearly be linked to the notion that MNCs seek to imitate best practices (Cantwell et al., 2010). Moreover, it can be argued that the access to information on best practices of key competitors appears to play a particularly important role. While MNCs are required to disclose their practices, there are no such formal requirements for SMEs (Momin & Parker, 2013).

Second, coercive pressures' negative impact on economic sustainability finds marginal support ($p<0.1$) in the SME, but not in the MNC context (H3a). This may be rooted in the fact that MNCs, due to their age, size, and international exposure proactively seek institutional compliance, thus minimizing the potential impact of coercive pressures on their economic performance. In SMEs, however, stakeholder pressure to change practices may in fact significantly affect the economic performance of such firms.

Third, we find full support ($p<0.01$) for the moderating effect of normative pressures on the relationship between coercive pressure and social sustainability in the case of the MNCs examined

and marginal support ($p>0.1$) in the case of the SMEs (H2b). This difference may mainly be accounted to the more formalized involvement of MNCs in professional associations and peer organizations.

Three out of the seven hypotheses could not be supported in either case. These were the positive impact of normative pressures on environmental and the moderating effect on the relationship of mimetic pressures and economic sustainability, as well as the positive impact of normative pressure on environmental sustainability. Thus, hypotheses H1b, H2a, and H3c are not supported.

One additional aspects particularly highlight the uniqueness of our findings. We examined the aforementioned relationships at the business unit level in order to facilitate the operationalization of the constructs at hand. Nonetheless, in seeking out strategic decision makers within the function as respondents, we ensure the strategic alignment of the responses. This enables us to draw conclusions reaching far beyond the business unit level.

CONCLUSIONS

Considering the results of our analysis we find confirmation for the impact of institutional pressures on corporate sustainability. Particularly mimetic pressures and the subsequent isomorphism seem to affect MNCs non-financial performance in the purchasing function. The moderation effect of normative pressures to the relationship of coercive pressures and social sustainability interestingly is significant in both the MNC as well as the SME context indicating a communality that did not apply in any of the other cases.

In conclusion, the findings of this study offer interesting insights into the cause and effect relationship of institutional pressures on triple bottom line sustainability performance in MNCs purchasing departments. Given the fact that a true understanding of the impact's breadth of said

pressures on sustainability performance requires an additional analysis on the business process level, we suggest to complement this view by taking a procedural perspective. Thus, we propose to take a case study approach (Eisenhardt, 1989) to expand the investigation of institutional pressures as external drivers for sustainability adoption.

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