Multinationals' Commitment to Sustainable Development in Emerging Countries: The Role of Corporate Governance and Home-Country Institutional Governance

Autoria

Larissa Cristina Ribeiro e Souza - larissacrsouza24@gmail.com
Programa de Pós-Graduação em Administração – PPGA / UFLA - Universidade Federal de Lavras

CRISTINA LELIS LEAL CALEGARIO - ccalegario@ufla.br
Programa de Pós-Graduação em Administração – PPGA / UFLA - Universidade Federal de Lavras

Marco Túlio Dinali Viglioni - marcotuliodinali@gmail.com
Programa de Pós-Graduação em Administração – PPGA / UFLA - Universidade Federal de Lavras

Cláudia Sofia Frias Pinto - claudia.frias.pinto@gmail.com
Prog de Pós-Grad em Admin/Faculdade de Economia, Admin e Contab – PPGA/FEA / USP - Universidade de São Paulo

Juciara Nunes de Alcântara - juciaranalcantara@gmail.com
Programa de Pós-Graduação em Administração – PPGA / UFLA - Universidade Federal de Lavras

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Resumo

Drawing on the institutional view of legitimacy theory, this study aims to analyze the impact of corporate governance structure of multinational enterprises (MNEs) operating in Latin America and the institutional governance of the home country on the commitment to sustainable development. Specifically, we investigated how the commitment of MNEs to sustainable development is impacted by: the size and the independence of the boards of directors; and the institutional governance of the home country. Using a sample of MNEs operating in Latin American countries that published sustainability reports between 2018 and 2022, we employed a quantitative methodology based on dynamic panel data regression using the Systemic Generalized Method of Moments (System-GMM). The results reveal the existence of a significant negative relationship between the board size and the commitment to sustainability, and a non-significant relationship between board independence and the commitment to sustainability. Regarding the home-country institutional governance and the commitment to sustainable development, we found a significant and negative relationship. These results show that MNEs' characteristics such as corporate governance and home-country institutional governance may vary contextually, especially in emerging host countries, and are relevant for understanding the role of MNEs in achieving the Sustainable Development Goals.

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Abstract

Drawing on the institutional view of legitimacy theory, this study aims to analyze the impact of corporate governance structure of multinational enterprises (MNEs) operating in Latin America and the institutional governance of the home country on the commitment to sustainable development. Specifically, we investigated how the commitment of MNEs to sustainable development is impacted by: the size and the independence of the boards of directors; and the institutional governance of the home country. Using a sample of MNEs operating in Latin American countries that published sustainability reports between 2018 and 2022, we employed a quantitative methodology based on dynamic panel data regression using the Systemic Generalized Method of Moments (System-GMM). The results reveal the existence of a significant negative relationship between the board size and the commitment to sustainability, and a non-significant relationship between board independence and the commitment to sustainability. Regarding the home-country institutional governance and the commitment to sustainable development, we found a significant and negative relationship. These results show that MNEs' characteristics such as corporate governance and home-country institutional governance may vary contextually, especially in emerging host countries, and are relevant for understanding the role of MNEs in achieving the Sustainable Development Goals.

Keywords: sustainability reports; multinational companies; corporate governance.

1. INTRODUCTION

With the adoption of the 2030 Agenda, which encompasses 17 Sustainable Development Goals (SDGs), by the United Nations (UN) and its Member States in 2015, there has been a growing trend among companies to mention the SDGs in their sustainability reports (Curtó-Pagès et al., 2021). Companies have shown interest in the SDGs as a common framework to demonstrate the broader social, environmental, and economic impacts of their operations (De Villiers et al., 2021). The 2030 Agenda highlights the importance of establishing partnerships that mobilize available resources from governments, civil society, and private sector. MNEs are particularly important since they maintain operations in different countries and can act as strategic agents to achieve the SDGs around the world (Van Tulder et al., 2021). However, as corporate involvement in the SDGs is a new phenomenon, empirical studies are still scarce, and there is little evidence on the circumstances in which companies seek to associate themselves with the SDGs (Van der Waal & Thijssens, 2020).

Good corporate governance has been associated with satisfactory sustainable performance, since companies' strategic decision-making processes are based on their governance structure (Maier, 2005). Studies indicate that corporate governance characteristics influence engagement in socially responsible actions and the quality of sustainability reporting (Jizi, 2017; Chams & García-Blandón, 2019; Pizzi et al., 2021). However, corporate governance does not arise in a vacuum (Jones & Pollitt, 2004) and may be associated with the institutional environment of the home country and the institutional environment of the host country (Khan, Al-Jabri & Saif, 2021a). In this sense, institutional theory explores how specific organizational forms are adopted to bring legitimacy to an organization (Deegan, 2018).

Sustainability reporting disclosures are comparable to a socially constructed system of values and beliefs, and institutional compliance is a means by which corporate managers can maintain organizational legitimacy (Chelli et al., 2014). According to the institutional view of legitimacy theory, the need to act in accordance with the institutional environment can be aligned with the opportunity to increase competitive advantages (Chelli et al., 2014). The institutional environment plays a central role in encouraging companies to invest in the transition to more sustainable business models, which represents a crucial step towards achieving the SDGs (Pizzi et al., 2021; Van Zanten & Van Tulder, 2018). This article follows this theoretical approach, considering that the contribution to sustainable development is linked to the search for institutional legitimacy.

In their internationalization processes, the legitimacy of MNEs from emerging countries is most often questioned by global stakeholders due to institutional problems of their home countries (Doh et al., 2017; Tashman et al., 2019). On the other hand, the home institutional environment of MNEs from developed countries is considered an important asset in obtaining legitimacy in the host country (Jung & Lee, 2018; Liou & Rao-Nicholson, 2021). However, in their quest to attract MNEs from developed countries, aiming at positive externalities, many emerging and developing countries purposefully open regulatory gaps (Narula & Dunning, 2000; Phillips & Mieres, 2015) that provide room for exploitative actions by MNEs, such as the use of forced labor (García-Alaminos et al., 2021), the displacement of local producers (Agosin & Machado, 2005), the creation of technological and economic dependence (Pavlínek, 2018), and the unbridled exploitation of natural resources (Alvarado et al., 2017), which perpetuate economic, environmental, and social problems. Hence, it is questionable to what extent the home country's institutional environment influences the sustainable conduct of MNEs in emerging host countries.

Therefore, this article aims to analyze the impact of the corporate governance structure of MNEs in Latin America and the institutional governance of the home country on the commitment to sustainable development. This article measures the evolution of information disclosed in sustainability reports to verify which factors influence companies to increase their engagement in actions aimed at sustainable development. Latin America is an appropriate context for this investigation, as the countries in the region face several difficulties in achieving the SDGs (Sachs et al., 2021), are predominantly destinations for foreign direct investment in sectors with high socio-environmental impact (Alvarado et al., 2017), and have institutional environments that underwent significant neoliberal economic reforms that have not been accompanied by adequate social and environmental policies (Goldfajn et al., 2021).

This study has three main contributions. First, previous research on MNEs' commitment to sustainable development has focused on a limited number of geographic contexts. This study addresses the Latin American context, which is relevant given that stakeholders' needs and expectations are contextual (Lindman et al., 2020). Second, this study contributes to international business literature by applying the institutional view of legitimacy theory to analyze a company's potential to transfer governance structures from its home country to a host country (Jung & Lee, 2018). Given that there is still little research focused on the sustainability of MNEs analyzing factors such as the characteristics of home countries (Linnenluecke, 2022), this analysis can contribute to the discussion on how several MNEs, to avoid more robust

governance structures, seek host countries with weaker institutional environments (Lechner, 2018).

2. LITERAURE REVIEW AND HYPOTHESES

Companies' main strategic decisions are made based on their corporate governance structure, which encompasses laws, regulations, rules, and voluntary practices that enable them to attract capital, operate efficiently, generate profits, and comply with legal obligations and social expectations (Maier, 2005). For shareholders, corporate governance can provide greater confidence in an equitable return on their investment; and for stakeholders, it can ensure that the company manages its impact on the environment and society in a responsible manner (Maier, 2005). Considering the demands of different stakeholder groups, the effectiveness of corporate governance structures has been associated with satisfactory sustainable performance, including engagement in social responsibility actions and the disclosure of quality sustainability reports (Jizi, 2017; Chams & García-Blandón, 2019; Pizzi et al., 2021).

Corporate governance reflects the institutional environment in which companies operate (Jones & Pollitt, 2004). The implementation of effective governance structures can be facilitated by the existence of rules and regulations that promote corporate transparency at the national level (Khan et al., 2021a). Based on these perspectives, this article analyzes indicators of the corporate governance of MNEs and the institutional governance of the home country that may influence the commitment to sustainable development of MNEs in Latin America.

Corporate governance research focuses on the study of power and influence over decision-making within the company (Aguilera & Jackson, 2010), with the board of directors playing a strategic role in MNEs (Duque-Grisales & Aguilera-Caracuel, 2021). That said, the characteristics of the board of directors potentially influence the behavior of MNEs in relation to sustainable development. Country governance, on the other hand, considers the institutional context in which business practices emerge (Jones & Pollitt, 2004; Agyei et al., 2022). In the case of MNEs, the institutional environment of the home country exerts great influence on the way global operations are conducted. In this sense, the institutional governance of MNEs' home country may be related to the level of the company's commitment to sustainable development.

2.1. Corporate governance

Corporate governance, in addition to representing the structure by which companies are directed and controlled, also defines a set of relationships between a company's management, its board, its shareholders, and other stakeholders (Maier, 2005). Given that all major operational or strategic decisions of large companies must be approved by the board of directors, governance structures related to boards of directors such as size, independence, gender diversity, and frequency of meetings play an important role in good corporate social responsibility practices (Disli et al., 2022; Frias-Aceituno et al., 2013). Such structures signal the intention to be responsible and committed to sustainability (Hahn & Kühnen, 2013), for example, through the inclusion of stakeholder engagement policies and the implementation of transparent management processes (Frias-Aceituno et al., 2013).

Board size

In contemporary companies, the traditional role of boards of directors – to serve only the interests of shareholders – has given way to the need for directors to better balance stakeholders' interests in making economic decisions, which are often only indirectly in favor of shareholders' interests (Waring, 2008). The new role of boards of directors therefore involves addressing emerging concerns regarding sustainable development (Chams & García-Blandón, 2019). Board size refers to the number of directors who are members of the board (Husted & Souza-Filho, 2019), which has been associated with decisions that impact companies' sustainability practices. However, there is no clear consensus in the existing literature on the relationship between board size and corporate sustainability (Hussain et al., 2018).

Larger boards of directors are typically perceived as a diverse group that is typically inclined toward stakeholders' concerns (Chams & García-Blandón, 2019). Empirical results from some studies reveal a positive correlation between board size and sustainability actions. Ntim and Soobaroyen (2013), considering a legitimacy-seeking perspective, indicate that larger boards can be a way to improve corporate reputation and image, since companies with larger boards tend to pursue a more socially responsible agenda. Frias-Aceituno et al. (2013) show that companies with larger boards are more likely to disclose sustainability reports. According to these authors, the contribution of directors with different types of expertise, and a greater variety of points of view, to the preparation of non-financial reports, is more common in larger boards. And the results obtained by Chams and García-Blandón (2019) indicate that companies with larger boards have better sustainability performance.

Other studies present divergent results. Disli et al. (2022) did not find a significant relationship between board size and sustainability performance and indicated a negative relationship between board size and governance performance. Martínez-Ferrero and García-Sánchez (2017) indicate that the probability of companies auditing their sustainability reports decreased with board size, however this relationship becomes opposite with a minimum number of around 12 members on the board, suggesting that very large boards are counterproductive for decision-making regarding sustainability. Very large boards may be less effective in monitoring and controlling management, caused by communication problems that hinder the decision-making process (Hussain et al., 2018).

However, in the Latin American context, Husted and Sousa-Filho (2019) emphasize the predominance of family businesses and the low stakeholder orientation in the region, indicating that companies and the law are generally more concerned with shareholders than with other stakeholders. In this sense, the authors argue that larger boards of directors bring broader perspectives in decision-making, requiring greater debate and negotiation, which benefits the sustainable performance of companies operating in Latin America. Thus, in this study, it is expected that a greater number of directors will have a positive effect on the contribution of MNEs to achieving the SDGs. Therefore, we propose that:

> **Hypothesis 1a:** Board size is positively related to the level of commitment to sustainable development of multinationals operating in Latin America.

Board of directors' independence

Board independence is related to the presence of non-executive or outside directors on boards of directors (Frias-Aceituno et al., 2013). In general, inside and outside directors have different values, interests, and time horizons (Post et al., 2011). Inside directors are usually more attentive than independent directors to short-term economic performance goals (Post et al., 2011). Outside directors, in turn, may be more focused on protecting stakeholders and long-term returns, and are more likely to develop organizational goals beyond financial interests, due to the absence of a monetary relationship between these directors and companies (Chams & García-Blandón, 2019; Pizzi et al., 2021).

Previous research indicates a non-significant relationship between board independence and sustainable actions (e.g. Benomran et al., 2015; Walls & Berrone, 2017). Another possibility, identified in Latin America, is situations in which independent members would not

be considered independent by the standards of developed countries, which may make them less effective in monitoring decisions made by managers (Sáenz González & García-Meca; 2014; Santiago-Castro & Baek, 2004). However, in general, independent directors have been associated with a greater commitment to sustainable development (e.g. Husted & Sousa-Filho, 2019). For example, Pizzi et al. (2021) reveal that independent directors play a central role in supporting and defending the interests of external stakeholders, and that the number of independent members is associated with better quality of information in sustainability reports. Therefore, we propose that:

> **Hypothesis 1b:** Board independence is positively related to the level of commitment to sustainable development of multinationals operating in Latin America.

2.2. Institutional governance of the home country

A country's governance can be defined as the traditions and institutions by which authority in a country is exercised. This includes the processes by which governments are elected, monitored, and replaced; the government's ability to effectively formulate and implement sound policies; and the respect of citizens and the state for the institutions that govern social and economic interactions (Kaufmann & Kraay, 2023). Issues related to country governance began to be discussed in academic literature in the 1990s, and have become a concern of policymakers, regulators, academics, and investors around the world (Ngobo & Fouda, 2012). The importance of good governance for strategic decision-making and the performance of MNEs is widely recognized in international business literature (Liou et al., 2016; Nippa et al., 2021). More recently, good governance has also been considered essential for promoting sustainable development (Adikpo & Usman, 2023; Alsaleh et al., 2021).

In this article, the institutional governance of countries is given by the six indicators of global governance (Worldwide Governance Indicators): voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law and control of corruption. According to Kaufmann and Kraay (2023), each of these indicators represents different institutional characteristics of the countries.

The engagement of companies in good economic, social, and environmental practices is one of the ways in which institutional governance drives sustainable development. According to Kiliç et al. (2019), countries with stronger governance environments have more incentives for companies to disclose sustainability reports in response to demands for transparency and

accountability. On the other hand, the lack of institutional support to make sustainability initiatives more visible, which occurs in many emerging and developing countries, is related to the greater difficulties in implementing initiatives that promote sustainable development (Duque-Grisales & Aguilera-Caracuel, 2021).

Hence, some studies suggest that good institutional governance from the home country can be transferred to a host country, as a type of firm-specific advantage (Jung & Lee, 2018). Mooneeapen et al. (2022) found evidence that MNEs work proactively to achieve sustainability in countries where the country's governance framework is ineffective and inadequate to enable it. In contrast, Anderson (2021) indicates that MNEs from developed countries tend to behave more irresponsibly regarding environmental and social issues in emerging host countries than in their home countries, while MNEs from emerging countries behave more responsibly when operating in developed markets.

Studies have shown the involvement of MNEs from developed countries in adopting harmful economic, environmental, and social practices in emerging and developing host countries (Agosin & Machado, 2005; Nam & Ryu, 2023; Pavlínek, 2018; Singhania & Saini, 2021). This is especially true when MNEs from developed countries seek host countries with institutional problems to avoid stricter socio-environmental regulations in their home countries (Lechner, 2018; Narula & Dunning, 2000; Phillips & Mieres, 2015). Consequently, foreign direct investment flows to emerging economies are concentrated in sectors focused on the extraction of natural resources, with poor working conditions, and industries and production phases with relatively low-income generation (Alvarado et al., 2017; García-Alaminos et al., 2021).

In line with the arguments presented, it can be expected that MNEs originating from countries with better institutional governance indicators are less likely to commit to sustainable practices in emerging and developing host countries, as is the case of Latin American countries. Therefore, we propose that:

> **Hypothesis 2:** The home-country institutional governance is negatively related to the level of commitment to sustainable development of multinationals operating in Latin America.

3. METHODOLOGY

3.1. Research sample and data collection

To select the research sample for this study, we considered only MNEs operating in Latin America included in the 500 Largest Companies in Latin America ranking, published annually by América Economía magazine. The classification of this ranking is based on the sales (in millions of dollars) of companies that maintain operations in a Latin American country, therefore, it also includes domestic companies, and not only MNEs. Therefore, we selected only MNEs, based on the 2021 and 2022 rankings.

We selected MNEs that published independent sustainability reports between 2017 and 2022. We chose to analyze only reports that adopted the Global Reporting Index (GRI) standards due to the greater number of companies that use them (Pizzi et al., 2020), which allowed comparisons between companies. In addition, the GRI standard is one of the most widely recognized reporting assessment frameworks, providing the most robust guidance for conducting a sustainability materiality analysis (Whitehead, 2017).

The final research sample consisted of 50 MNCs from 15 different countries: Argentina, Belgium, Brazil, Chile, Colombia, France, Italy, Japan, Luxembourg, Mexico, Netherlands, Peru, Spain, Sweden, and United States. For MNEs originated in countries outside Latin America, we selected the sustainability reports focused on the Latin American countries in which they operate.

To collect data from sustainability reports, we adopted the content analysis technique, following previous studies on non-financial reports (Nikolaou & Tsalis, 2013; Pizzi et al., 2020; Kuswantoro et al., 2022). Content analysis can be defined as “any methodological measurement applied to text (or other symbolic materials) for social science purposes” (Shapiro & Markoff, 1997, p. 14). This definition can be divided into two approaches: the statistical recording of the text to assess its content; and the interpretation of the content to extract underlying meanings and ideas (Sauer & Seuring, 2017) – we adopted the former approach.

3.2. Dependent variable

The dependent variable is the level of commitment of MNEs to achieving the SDGs. To measure this commitment, we created a proxy called the Sustainable Commitment Index (SCI). To construct this variable, we adopted a measurement system, loosely based on the work of Tsalis et al. (2020) and Pizzi et al. (2021), to quantify the progress of the information disclosed in sustainability reports. In sustainability reports that adopt the GRI standard, information is

reported through indicators that cover issues related to the economic, environmental, and social impacts of business operations (Tsalis et al., 2020). We used the GRI indicators to describe specific aspects related to SDGs 1–16, in an initiative developed jointly by GRI, the UN, and the World Business Council for Sustainable Development that introduced the SDG Compass (Pizzi et al., 2020). SDG 17 was not considered because it does not have an equivalent indicator in the GRI (Pizzi et al., 2020). Furthermore, SDG 17 is a comprehensive SDG that covers all SDGs, so its quantification can be difficult, if not impossible, through corporate and sustainability reports (Sardianou et al., 2021). For this research, we selected 27 GRI indicators, as they were the indicators most frequently reported by companies in the research sample. Table 8 presents the 27 GRI indicators we selected for analysis according to the SDGs, as classified by Pizzi et al. (2020), with some indicators being classified within more than one SDG. And Table 9 presents the variables we used in this study.

Tabela 1 – Classificação dos indicadores GRI de acordo com os ODS.

SDG	Description	GRI indicators	Total of indicators
SDG 1	No Poverty	202-1; 203-2	2
SDG 2	Zero Hunger	413-2	1
SDG 3	Good health and well-being	203-2; 305-1; 305-2; 305-3; 305-4; 306-3; 306-5	7
SDG 4	Quality education	404-1; 404-2	2
SDG 5	Gender equality	405-1; 405-2	2
SDG 6	Clean water and sanitation	303-3; 303-4; 306-3; 306-4	4
SDG 7	Affordable and clean energy	302-1; 302-3; 302-4	3
SDG 8	Decent work and economic growth	201-1; 203-2; 204-1; 401-1; 401-3; 404-1; 404-2; 404-3; 405-1; 405-2	10
SDG 9	Industry, Innovation, Technology and Infrastructure	201-1; 203-1	2
SDG 10	Reduced inequality	401-1; 404-1; 404-2; 404-3; 405-2	5
SDG 11	Sustainable cities and communities	203-1	1
SDG 12	Responsible consumption and production	301-1; 301-2; 302-1; 302-3; 303-3; 305-1; 305-2; 305-3; 306-3; 306-4; 417-1	11
SDG 13	Climate action	302-1; 302-3; 302-4; 305-1; 305-2; 305-3; 305-4; 305-5	8
SDG 14	Life below water	305-1; 305-2; 305-3; 305-4; 305-5; 306-3; 306-4	7
SDG 15	Life on land	305-1; 305-2; 305-3; 305-4; 305-5; 306-3; 306-4	7
SDG 16	Peace, justice and strong institutions	404-1	1
SDG 17	Partnerships for the goals	-	0

Source: adapted from Pizzi et al. (2021)

The first step in measuring the SCI was to assess potential setbacks, stagnation or advances in the information provided in a sustainability report, in relation to the previous year's report, for each GRI indicator. For example, we verified whether, in relation to the previous year, there was implementation of new policies to reduce discrimination in the workplace,

reduction of energy consumption from non-renewable sources, implementation of social actions aimed at external stakeholders etc. We weighted each reported indicator using a 3-point scoring system: 0 points, when setbacks were identified in the information provided on a specific disclosure topic, in relation to the previous year, or when a given indicator is not reported; 1 point, when no changes were identified in the information provided on a specific disclosure topic, in relation to the previous year; and 2 points, when advances were identified in the information provided on a specific disclosure topic, in relation to the previous year. Then, for each company, we calculated, according to Equation 1, the ratio between the sum of the 27 weighted indicators and the maximum score to be obtained. Considering the three-point weighting system and the total number of indicators analyzed (27), the total number of weighted indicators is 81. Therefore, the ICS can vary from 0 to 1.

$$\text{SCI} = \frac{\sum_{i=1}^{27} WeightedIndicator_i}{Total\ weighted\ indicators} \quad (1)$$

Where: *i* represents the indicator number among the 27 indicators analyzed.

Table 2 – Dependent, independent and control variables.

Variable	Description and measurement	Source
Sustainable Commitment Index (SCI)	Captures the commitment to sustainable development through analysis of the evolution of information disclosed in sustainability reports. It is given by the ratio between the sum of the weighting of the reported GRI indicators and the maximum score of the total indicators analyzed	Sustainability reports
Board size (BSZ)	Number of members of the board of directors	
Board independence (IND)	Ratio between the number of independent members who are part of the board of directors and the total number of members	
Institutional governance (INS)	Factor scores for the factor analysis of the six global governance indicators: voice and accountability; political stability and absence of violence; government effectiveness; regulatory quality; rule of law; and control of corruption	World Bank
Company size (CSZ)	Natural logarithm of the company's total assets	Financial reports
Experience in Latin America (EXP)	Number of years the company has been operating in a Latin American country	-
External audit of the report (AUD)	Binary variable that assumes value 1 if the sustainability report is audited by one of the 4 large companies (PWC, Deloitte, EY and KPMG), and value 0 otherwise	Sustainability reports
Sensitive sector (SEC)	Binary variable that assumes value 1 if the company belongs to a sensitive sector (high social or environmental impact), and value 0 otherwise	-
COVID-19 (COV)	Binary variable that assumes the value 1 for the year 2020, when the COVID-19 pandemic broke out, and the value 0 for other years	-

Source: the authors.

3.3. Independent variables

There are two independent variables related to corporate governance. The first variable is the size of the board of directors, given by the number of board members. The second variable is board independence, which describes the percentage of independent members who are part of the board of directors. Both variables were collected from sustainability reports.

The third independent variable is institutional governance in the MNEs' home countries. Good governance is essential for development and helps countries improve economic growth, build human capital, and strengthen social cohesion (Kaufmann & Kraay, 2023). This variable is given by the six Worldwide Governance Indicators developed by Kaufmann and Kraay (2023) and made available by the World Bank. The six indicators are: voice and accountability; political stability and absence of violence; government effectiveness; regulatory quality; rule of law; and control of corruption. Considering the high correlation of these six indicators with each other, it was decided to combine them into a single variable through factor analysis, which indicated a one-factor solution. The factor loadings for all items are greater than 0.85. The six items have a Cronbach's alpha coefficient of 0.9.

3.4. Control variables

We selected five control variables that, according to the literature, influence issues related to a company's sustainability performance. Five control variables make up the model: company size, experience in Latin America, external audit of the report, operation in a sensitive sector, and COVID-19. The first control variable is company size, which is relevant because larger companies can improve the quality of their sustainability reports (Farooq et al., 2021) and are subject to greater demands from external stakeholders to make investments that positively impact sustainable development (Kalbuana et al., 2022). Company size was given by the natural logarithm of the company's total assets (Naeem et al., 2022). Experience in Latin America was calculated by the age of the company, in the case of Multilatinas, and by the number of years since the establishment of the first subsidiary in a Latin American country, for other MNEs (Shirodkar & Konara, 2017). With increased experience operating in each country, MNEs may be better able to contribute to solving problems that impact sustainable development, such as creating philanthropic programs to meet the health and education needs of local communities (Rao-Nicholson et al., 2024). The literature indicates that hiring internationally recognized auditing firms to audit sustainability reports increases the quality and reliability of the information reported (Hodge et al., 2009; Cheng et al., 2015). The variable for

external audit of the report is given by a dummy, which assumes the value 1 if the sustainability report is audited by one of the Big 4 auditing firms (PwC, Deloitte, EY, and KPMG), and the value 0 otherwise (Al-Lawati & Hussainey, 2022). Operating in sensitive sectors can generate negative environmental and social impacts. Companies operating in sectors with a high environmental impact, such as the energy, oil and gas, chemical, pulp and paper, mining, and steel sectors, and companies operating in sectors with a high social impact, such as the financial sector, can be classified as sensitive (Garcia et al., 2017; Seguí-Mas et al., 2018). The variable for sensitive sector is given by a dummy, which assumes value 1 for companies operating in sensitive sectors, and 0 otherwise. Finally, a binary variable was included as a control for the year 2020, the year in which the COVID-19 pandemic broke out and directly impacted the drop in greenhouse gas emissions and other environmental indicators due to the reduction in production activities worldwide (Le Quéré et al., 2021), and the increase in social actions by companies (García-Sánchez & García-Sánchez, 2020).

3.5. Data analysis

We carried out panel data regression models to analyze the role of companies' corporate governance and the home-country institutional governance in the contribution of MNEs to achieving the SDGs. We adopted the Generalized Method of Moments (GMM), which is considered efficient in dealing with problems of correlation, endogeneity, and heteroscedasticity, generally present in panel data, and can lead to estimation errors in the statistical model (Khan, Yu & Sharif, 2021). We estimated the regression models using System-GMM, which has been shown to have considerable efficiency gains over the basic first-difference GMM (Baltagi, 2005) and simultaneously allows the introduction of more instrumental variables (Roodman, 2009). The basic dynamic estimation model is presented in Equation 2.

$$SCI_{it} = \beta_0 + \beta_1 ICS_{it-1} + \beta_2 Corporate\ Governance_{it} + \beta_3 Institutional\ Governance_{kt} + \beta_4 Controls_{ikt} + \varepsilon_{it} \quad (2)$$

Where: *i* represents the multinational, *k* is the home country of the multinational, and *t* is the year of observation; SCI_{it} represents the dependent variable, the sustainable commitment index; ICS_{it-1} is the lag of the dependent variable; $Corporate\ Governance_{it}$ refers to the board size and independence; $Institutional\ Governance_{kt}$, refers to the variable generated from the six

Worldwide Governance Indicators; $Controls_{ikt}$ are the size of the company, the experience in Latin America, the external audit of the sustainability report, the company's performance in a sensitive sector, and the year of the onset of the COVID-19 pandemic; e ε_{it} é o termo de erro.

4. RESULTS

Table 10 presents the descriptive statistics and the correlation matrix. The maximum score on the SCI variable that could be obtained by companies is 1, and the average score was 0.29, indicating that the average level of commitment to achieving the SDGs was approximately 29%. The average size of the board of directors is 10 members, while the independence of the boards is around 53%. The maximum value of the home-country institutional governance (1.96) refers to Luxembourg in 2018, and the minimum value (-1.28) to Mexico in 2021. This indicates that Luxembourg and Mexico had the best and worst institutional governance structures among the countries in the sample, respectively. Of the 50 companies in the sample, 37% belong to industrial sectors with high socio-environmental impact. Regarding the correlation matrix, Table 9 shows that the variables do not present high levels of correlation with each other. The absence of multicollinearity problems was confirmed by the VIF test, which indicated that the highest VIF value is 1.29 and the average VIF is 1.15, therefore values below the limit of 10.

Table 3 – Descriptive statistics and correlation matrix.

Variable	Mean	DP	Min	Max	1	2	3	4	5	6	7	8	9
(1) SCI	0.29	0.09	0.03	0.50	1								
(2) BSZ	10.23	2.53	3	19	-0.03 [0.63]	1							
(3) IND	0.53	0.20	0.11	1	0.16 [0.01]	-0.03 [0.65]	1						
(4) INST	-0.001	0.99	-1.28	1.96	-0.15 [0.01]	-0.10 [0.10]	-0.11 [0.07]	1					
(5) CSZ	3.39	1.44	0.40	7.52	0.17 [0.00]	0.15 [0.02]	-0.02 [0.77]	0.37 [0.00]	1				
(6) EXP	68.96	31.4	18	143	-0.18 [0.00]	0.04 [0.48]	0.09 [0.16]	-0.08 [0.18]	-0.12 [0.05]	1			
(7) AUD	0.50	0.47	0	1	0.58 [0.00]	0.01 [0.95]	0.17 [0.00]	-0.10 [0.08]	0.14 [0.03]	-0.08 [0.16]	1		
(8) SEC	0.37	0.48	0	1	-0.32 [0.00]	-0.11 [0.06]	-0.20 [0.00]	-0.07 [0.22]	-0.11 [0.09]	0.23 [0.00]	-0.17 [0.00]	1	
(9) COV	0.20	0.40	0	1	0.27 [0.00]	-0.07 [0.27]	-0.01 [0.98]	0.00 [0.95]	-0.01 [0.91]	-0.01 [0.94]	0.06 [0.30]	-0.01 [0.96]	1

Note: SD= standard deviation; Min= minimum; Max= maximum. P-value in square brackets.
Source: the authors.

Table 11 presents the results of the regression models. The results of the variable related to board size in Model 1 (β= -0.021, p<0.01), and in Model 4 (β= -0.015, p<0.01) show negative and significant coefficient values that contradict Hypothesis 1a, determining that the increase of one person on the board reduces the level of commitment to sustainable development by between 1.5% and 2%. In Hypothesis 1a, we argued that the size of the board of directors would be positively related to the commitment to achieving the SDGs. The results indicate, however, a negative relationship between the size of the board and the commitment to sustainable development. In Model 2, and in Model 4, the coefficients of the variable related to board independence are not significant. Therefore, the results do not support Hypothesis 1b, in which we argued that board independence would be positively related to the commitment to achieving the SDGs.

Table 4 – Regression results.

Variables	**Model 1**	**Model 2**	**Model 3**	**Model 4**
L1.SCI	0.173***	0.115**	0.129**	0.097**
	(0.049)	(0.053)	(0.047)	(0.049)
Independent variables				
Board size	-0.021***			-0.015***
	(0.005)			(0.004)
Board independence		0.017		0.051
		(0.046)		(0.041)
Institutional governance			-0.054***	-0.054**
			(0.016)	(0.024)
Control variables				
Company's size	0.033***	0.012	0.024**	0.033***
	(0.010)	(0.010)	(0.011)	(0.012)
Experience in Latin America	-0.0006	-0.0001	0.001	0.0001
	(0.001)	(0.001)	(0.001)	(0.0009)
External audit of the report	0.024**	0.031***	0.028**	0.024**
	(0.011)	(0.012)	(0.011)	(0.011)
Sensitive sector	-0.061	-0.097***	-0.137***	-0.038***
	(0.040)	(0.034)	(0.037)	(0.032)
COVID-19	0.032***	0.037***	0.041***	0.038***
	(0.006)	(0.007)	(0.005)	(0.005)
Intercept	0.419***	0.250**	0.153*	0.318***
	(0.116)	(0.105)	(0.088)	(0.090)
Obs	194	194	194	194
Teste de Hansen	0.384	0.247	0.268	0.351
AR (1)	0.005	0.014	0.013	0.010
AR (2)	0.118	0.226	0.138	0.204

Note: Robust standard error in parentheses; *p<0.10; **p<0.05; ***p<0.01.

In Hypothesis 2 we proposed that institutional governance in the home country would negatively influence the commitment to achieving the SDGs. It was argued that MNEs from developed countries, with higher governance indicators, would be less committed to sustainable

development in emerging and developing countries due to the adoption of more irresponsible economic, environmental and social practices in these countries. The results of Model 3 (β= -0.054, p<0.01) and Model 4 (β= -0.054, p<0.05) show a negative and significant effect of governance indicators on sustainable commitment, supporting Hypothesis 2.

Regarding the control variables, company size presented a positive and significant coefficient in Model 1, Model 3, and Model 4. This result corroborates the view that larger companies are under greater pressure to invest in sustainability actions (Kalbuana et al., 2022). The external audit of the report was also positively related to the commitment to sustainable development, presenting a positive and significant coefficient in all models. This result demonstrates that the audit of sustainability reports by internationally recognized firms is an indication that the concern with the disclosure of quality information (Hodge et al., 2009; Cheng et al., 2015) is also a way for companies to demonstrate their commitment to sustainable development. The sensitive sector presented a negative and significant coefficient in all models. This result indicates that although companies operating in sectors with high social and environmental impact seek to engage more with SDG targets than companies in other sectors (Van Zanten & Van Tulder, 2018), they may have more difficulty in effectively contributing to sustainable development due to the nature of their operations. The COVID-19 variable, which represents the year 2020, when the pandemic broke out, presented a positive and significant coefficient. This suggests that the reduction in production activities during the pandemic, as well as the increase in philanthropic actions, resulted in a decrease in the generation of negative externalities, and an increase in positive externalities, so that companies presented better environmental and social indicators during this period, such as a reduction in energy consumption and the generation of greenhouse gas emissions (Le Quéré et al., 2021), and an increase in the donation of financial resources to health, food, and research (García-Sánchez & García-Sánchez, 2020). The estimated coefficients for experience in Latin America are statistically insignificant and therefore indicate that experience in the region has no influence on commitment to sustainable development.

5. DISCUSSION

Given the role of corporate governance in decision-making within companies and the strategic role of the board of directors (Aguilera & Jackson, 2010; Duque-Grisales & Aguilera-Caracuel, 2021), we proposed in the hypotheses that the board size and independence would have a positive effect on the commitment of MNEs to sustainable development. However, the

results indicated a negative relationship between board size and the sustainable commitment of MNEs, while the relationship between board independence and sustainable commitment was not significant.

Although most research indicates a positive relationship between board size and sustainability-related issues, some studies present divergent results, indicating a non-significant relationship between board size and sustainability performance (Disli et al., 2022), or that many board members can hinder decision-making regarding sustainability (Martínez-Ferrero & García-Sánchez, 2017). According to Cheng (2008), on larger boards, members must make concessions more frequently to reach an agreement and, consequently, decisions on larger boards tend to be less extreme. One explanation for the negative result may therefore lie in the Latin American institutional context. Considering the low stakeholder orientation in Latin America, with companies and laws more focused on protecting shareholders, in relation to other stakeholder groups (Husted & Sousa-Filho, 2019), the possibility of boards of directors making more moderate decisions regarding sustainability may be greater due to concern for financial results. Furthermore, possible interventions in the appointment of board members in state-owned and family-owned companies (Simpson, 2014; Thompson & Alleyne, 2023) may also prioritize agendas other than sustainable development. Thus, it is believed that the decision on the number of board members is influenced by contextual issues and the company's financial and sustainability objectives.

Regarding board independence, previous literature indicates that independent members of boards of directors are necessary for values other than financial ones to guide companies' conduct and to defend the demands of external stakeholders (Chams & García-Blandón, 2019; Pizzi et al., 2021). However, some studies also indicate a non-significant relationship. Benomran et al. (2015) did not find a significant relationship between board independence and sustainability reporting. Walls and Berrone (2017) analyzed environmental performance and did not find a significant relationship with board independence. Among the reasons for the lack of significance in these relationships may be the lack of concern of independent directors with sustainable development (Amran et al., 2014); or the presence of independent directors only to meet regulatory requirements, which would result in independent directors without concrete functions or having their considerations discarded (Sekarlangit & Wardhani, 2021).

Good institutional governance in home countries is considered essential for the sustainable performance of countries and companies (Mooneeapen et al., 2022). Therefore, in this article, we proposed that there would be a negative relationship between home country governance and sustainable commitment. The results provided support for the proposed

hypothesis. Although the expected pattern is that socially and environmentally responsible companies in their home countries act in the same way in host countries (Jung & Lee, 2018), the chances of these behaviors being transferred decrease in least developed host countries, which are destinations for outdated technologies and are often used as pollution havens (Anderson, 2021; Wang et al., 2020). This is because different institutional systems differ in terms of their responses to sustainability issues (Kiliç et al., 2019). Therefore, MNEs can choose to transfer their sustainability practices from their home country or adopt the practices of the host country (Anderson, 2021).

Although the institutional environments of host countries were not analyzed in this research, the institutional conditions of emerging and developing countries can facilitate harmful behaviors by MNEs (Doh et al., 2017). Institutional gaps, including insufficient laws and regulations, combined with a lack of oversight, can give rise to undesirable practices by MNEs, such as the unbridled exploitation of natural resources, environmental pollution, and human rights violations (Nam & Ryu, 2023; Singhania & Saini, 2021). Considering that for MNEs financial objectives come first, and socio-environmental issues take a back seat (Narula, 2019), ethical conduct in the home country will not necessarily translate into ethical conduct in host countries that do not have strong institutional environments and are not engaged in the pursuit of sustainable development. Governance structures and practices are therefore a reflection of how effectively companies are managed in each country. If a company's internal governance mechanisms (such as board independence) and/or the host country's institutional governance mechanisms (such as regulatory quality) are not adequate, issues such as promoting social and environmental well-being, which are important to external stakeholders, may be put on the back burner in favor of financial issues that are more relevant to internal stakeholders, such as shareholders. In this scenario, MNEs operating in countries characterized by weak governance may be more negligent with the demands of their different stakeholder groups. In such contexts, government intervention may be essential to encourage investments that facilitate the promotion of sustainable development (Alsaleh et al., 2021).

6. FINAL CONSIDERATIONS

This study analyzed the impact of the corporate governance structure of MNEs operating in Latin America and the institutional governance of the home country on the commitment to sustainable development. We selected a sample of 50 MNEs operating in Latin America, originating from developed and emerging countries, between 2018 and 2022. We

applied the System-GMM estimator to analyze the data. Our results showed that the bord size is negatively related to the sustainable commitment of MNEs; and that the board independence does not impact sustainable commitment. These results diverge from the relationship we proposed in the construction of our hypotheses regarding the influence of corporate governance on the sustainable commitment of MNEs. The results also showed that the institutional governance of the home country is negatively related to the commitment to sustainable development of MNEs in Latin America. This indicates that the quality of the home country's institutional environment may not be such a favorable indicator, as indicated in previous literature (Jung & Lee, 2018; Mooneeapen et al., 2022), for the engagement of MNEs in achieving the SDGs in emerging host countries. On the other hand, this result indicates that MNEs originating in countries with lower institutional governance indicators are more engaged with sustainable development. This relationship may be based on the search to overcome foreign disadvantages through gains in legitimacy that the commitment to sustainability provides to MNEs.

The results of this study may be of interest to managers, investors, and policymakers. In terms of managerial implications, our results suggest that larger boards of directors may negatively influence commitment to sustainable development. This result can be due to difficulties in decision-making on larger boards that have directors who have divergent views on sustainability (Martínez-Ferrero & García-Sánchez, 2017), or due to the more frequent need to make concessions to achieve consensus (Cheng, 2008). In this scenario, managers and investors of MNEs interested in gaining legitimacy should encourage sustainable practices and initiatives, seeking to incorporate directors who have sustainable development as a priority on their agendas.

Regarding policy implications, our results suggest the need for reforms that reverse the weak institutional orientation towards sustainable development in Latin America (Belloc & Molina, 2023; Malanski & Póvoa, 2021). The results show that higher indicators of institutional governance in the home country are negatively related to MNEs' commitment to sustainable development in emerging host countries. Since developed countries have higher levels of institutional governance (Kaufmann and Kraay (2023), this negative relationship with sustainable commitment is an indicator of how MNEs can act irresponsibly in emerging and developing host countries, taking advantage of institutional failures (Anderson, 2021; Doh et al., 2017; Nam & Ryu, 2023; Singhania & Saini, 2021). Latin American countries adopted less restrictive regulations on foreign investment in the 1990s, aiming at economic growth (Castellacci, 2015). Nonetheless, environmental and social legislation has not kept pace with

regulatory reforms that aimed to favor MNEs' business (Belloc & Molina, 2023; Contractor et al., 2021). In view of this, policymakers in the region should seek to attract MNEs committed to sustainable development, in addition to analyzing the restriction on the entry of foreign investors into economic sectors that harm sustainable economic, environmental and social development (Reiter & Steeensma, 2010; Sapkota & Bastola, 2017).

This study has some limitations that provide new avenues for future research. First, we investigated MNEs' commitment to sustainable development in a generalized manner. As the differences in economic, environmental, and social impacts, future research that investigates the three pillars of sustainability in a disaggregated manner may enable a better understanding of factors that influence MNEs engagement in sustainability practices, especially since companies in different sectors have different goals. For example, MNEs operating in environmentally sensitive sectors may prioritize environmental SDGs, while MNEs operating in socially sensitive sectors may prioritize social SDGs. Second, we based the measurement of commitment to sustainable development in this study on self-reported information from MNEs, aiming to investigate how MNEs seek to assert their institutional legitimacy. Notwithstanding, considering the criticisms raised regarding sustainability reports, such as greenwashing (Lashitew, 2021; Testa et al., 2018), future research could use metrics developed by organizations that assess companies' sustainability performance independently. Third, we limited the characteristics of corporate governance analyzed in this study to the size and independence of the board. Aiming at a more comprehensive view of the impact of corporate governance on the commitment to sustainable development, other characteristics of boards of directors should be analyzed, such as the presence of women, the number of meetings, and the existence of sustainability committees. Finally, we analyzed the relationship between the governance of the home country and the commitment of MNEs to sustainable development. Future studies could analyze the institutional governance of host countries or even compare the governance distance between the home and host countries, seeking to verify how MNEs originating from countries with different levels of development behave in host countries that are more institutionally close or distant.

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