

SUSTAINABLE DEVELOPMENT POLICIES IMPACT ON FOREIGN DIRECT INVESTMENT

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Abstract:

Increased environmental matters bring about the reconsideration of the development policies. In many countries, by adopting the principles of sustainable development, severe restrictions were imposed on the economic activities. A change in the investment behaviour of companies is therefore necessary with a view to adapting their strategies to the restrictions concerning the use of the natural environment. As far as foreign direct investment is concerned, quantitative and structural variations are registered both as a reaction to the change in the conditions for carrying out business activities and as a response to changing management according to the requirements of sustainable development. By means of this study, we would like to highlight the directions adopted at the level of the management of multinational companies concerning the foreign direct investment in these circumstances.

Keywords: multinational management, foreign direct investment, sustainable development policies, multinational corporation, corporate responsibility

JEL Classification: F21, M16, Q56

INTRODUCTION

Despite their importance, the environmental goods and services available for the economy and the society have been always undermined from the economic point of view, especially in the case of those environmental aspects which are not directly and visibly included into the processes related to different activities. Without being traded on any market, they remained outside the mechanism of the market, they were not “assessed” by means of the price system or they were related by circumstances to the system of economic levers from the dominant positions of the economic policy even if they manifested continuously and anywhere their essential character.

Nevertheless, as a result of a thorough analysis, the environment – in its whole, is a very important economic factor which, besides capital and work, can be traditionally considered as a factor of production.

For the economic and social system, the natural environment has at least a double functionality: it is a productive factor, generating primary inputs for different activities, also being “the recipient” of the residues generated by the production and consumption processes which will or will not be absorbed and neutralised in the complex framework of natural ecosystems according to their assimilation capacity.

However, the environment also provides a set of general services, being a “provider” of recreational services or other services related to the concept of the quality of life whose demand is caused by the level of development of society.

THE PRESENT EVOLUTION OF THE ENVIRONMENT AND ITS EFFECTS ON FOREIGN DIRECT INVESTMENT

Scientific literature pays special attention to the impact of foreign direct investment on the economies and on the development of the countries in which they are carried out. It is assessed that, by their means, a spread and a more efficient use of technologies and resources takes place (Borensztein, Gregorio, & Lee, 1998, p.116). In fact, an infusion of capital, technology and knowledge takes place in the receiving economies of foreign direct investment and in case they are characterized by reduced levels of performance, the effect is one related to development, manifested

at the level of the quality of human resources, of the technologies which were used, of the management and the organisation of companies (Balasubramanyam, Salisu, and Sapsford, 1996, p.92).

Nevertheless, although many studies emphasize the positive impact on economies, there are also approaches which analyse the *negative effects of foreign direct investment* on them.

In his work "How does foreign direct investment affect economic growth", Borensztein and others (1998) analyses the idea according to which the differences between countries concerning the absorption capacity of technologies lies at the basis of the different effects on growth in different countries. Kevin R. Gray (Kevin R. Gray, 2002, p. 306) estimates that "foreign direct investment may have a worrying impact for the host country's on ecosystems and social development". This author explains the fact that, in the hope of attaining a high rhythm of growth, the least developed countries reduce their exigencies with regard to the quality of the environment, which determines the multinational companies to be interested in the carrying out of investment which, however, brings about low levels for the quality of environment or excessive consumption of resources.

The theoretical approaches to development emphasize the fact that the countries themselves with a low level of development, relying especially on the exploitation of natural resources, must be those which pay greater attention to the exhaustible resources. In the category of resources, we also include the environment as a receiver of waste and pollution. Consequently, the importance of approaching sustainable development at the level of all economies becomes apparent. In their work "The economy of the natural resources and of the environment", D. W. Pierce and R.K. Turner analyse the correlation between the level of the natural capital and the standard of living, drawing the conclusion that we can talk about sustainable development only when the level of natural capital exceeds a level which can ensure both the self-support of environment and the development of human activities necessary for the normal course of life. (Figure no. 1).

In the case of enterprises, sustainable development represents the adoption of a business strategy based on activities which should meet the present needs of enterprises and their own shareholders, at the same time complying with the exigencies concerning the protection, the support and the improvement of material and human resources which will be necessary in the future.

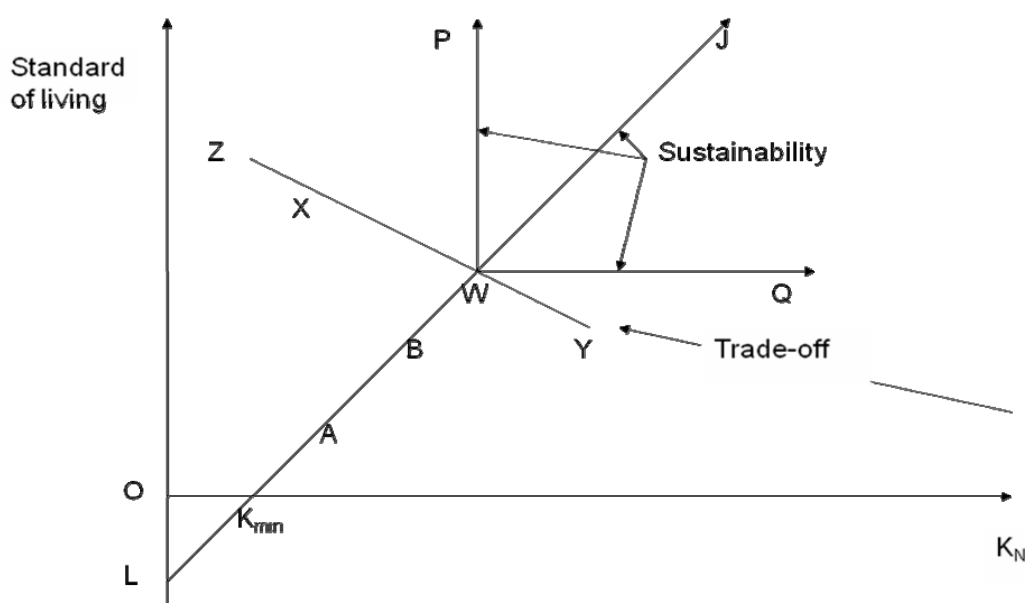


Figure no. 1. The model of the correlation between the standard of living and the natural resources (Pierce and Turner, p. 56.)

Business depends on material and human resources. In these circumstances, the economic activity must not destroy or damage these resources. At the same time, sustainable development

cannot be achieved only through the isolated action undertaken by some enterprises. A sustainable behaviour of all the companies in the economy is necessary, irrespective of their type or nationality. The sustainable development is a philosophy in which each participant to the global economy must take part.

The environmental matters are essential but the economic growth contributes to their increase. The strict regulations in the field of environment often reduce the economic growth. Business firms are therefore restricted or determined to take measures with a view to making their activity efficient in the new circumstances, measures for limiting the access to resources or technologies. The instruments for the environment which were applied under the form of pollution taxes, environmental standards, performance bonds etc. generate external costs for companies, which can cause even the framing into the inefficiency state and which means in fact stopping the activity.

DIRECTIONS OF GOVERNMENTAL POLICIES FOR REGULATING THE FDI

Considering that companies aim at carrying out investment, the environmental restrictions can lead to drastic reductions of the cost-effectiveness and of the added value of the new projects, which requires reconsidering the plans which were carried out or rejecting some projects which do not prove to be viable under the new conditions.

In order to achieve the objectives of sustainable development, considering that the advantages brought about by foreign direct investment are well known, the states will adopt policies (Mabey, N., McNally R., 1999, p. 7) which will take into account the following aspects:

a. The increase in the business responsibility of the multinational companies

These measures aim at business firms and companies which must assume a greater responsibility for the operations undertaken abroad. By means of their investment projects, companies must exceed the phase of "corporate responsibility" and must adopt an active corporate position for imposing or promoting the environmental standards within the economies in which they will perform their activity.

On the other hand, the certification of ecological products derived from the new activities of the companies can influence the companies to choose the use of renewable sources or the involvement of "environmentally-friendly technologies" considering that, at least in some sectors of activity, consumers are sensitive to such information related to the products or the services of companies.

b. The initiation and the development of some international agreements concerning the stimulation of direct investments which should not be contrary to environmental legislation

Following their tendency to improve the economic parameters of different economies, the governments attempt to sign agreements making serious concessions with regard to the implementation of principles of environment protection. In fact, in order to ensure a real output favourable to economies, the investment projects must take into account the environmental regulations in each country. Besides them, it is necessary to abandon the compulsory performance levers for the new projects which could bring about high levels of intensity of the activity and implicitly pollution or exaggerate consumption of resources. In the framework of international agreements, the interest of communities must be prevalent – the true owner of natural resources and the reduction of the availability of governments to record immediate gains obtained from their granting concessions or direct disposal.

c. The justification of environmental regulations and their improvement

Whereas a loyal competition is desirable, there must be a limit to the freedom of action of companies which do not comply with the minimum levels for the protection of the environment, levels brought about by the activity developed through foreign direct investment. To that effect, the common international regulations related to environment have the role to protect the responsible societies which, through their own policies, are listed

in the direction of sustainable development. The role of local entities and of the civil society must be also strengthened with a view to imposing a responsible behaviour on the part of the companies. To that purpose, it is necessary to regulate, at the international level, the framework by means of which: there should be a good transparency of the investors' actions with regard to their impact on the environment, the setting up of civil structures for supervision should be encouraged and the frameworks of the legal representation of citizens in the possible conflicts related to the abuses of multinational companies should be also fostered. The sustainable development can be achieved only through a larger governing system which should respect and improve human rights and workers' rights and should promote the normal functioning of markets.

All these directions of action expected by the governmental or international policies are regarded at the level of the management of multinational companies as determining factors and as factors restricting the foreign direct investment flows. Companies are therefore interested in answering the exigencies of sustainable development and in changing both the managerial systems and the attitude of the management teams. To that effect, strategies and directions of action are adopted, which should lead to achieving organisational objectives and to delimiting a sustainable perspective for their business.

DIRECTIONS ADOPTED AT THE LEVEL OF THE MANAGEMENT OF MULTINATIONAL COMPANIES

The approach we analyse from a managerial point of view is not by all means one which was laid down as a response to the environmental restrictions and policies and to the sustainable development policies of society but it is also a natural and structural evolution connected with the capacity of the decision-making factors within the large international companies to understand their role in promoting the use of recyclable materials, of good practices for using the resources etc. at the level of the economies within which they perform their activity.

In fact, sustainable development must be inserted into the processes relating to the management systems of the companies. Although the methods used in this respect are not fundamentally different from those which have been used up to the present, however, it is necessary to provide a new cultural direction and a new dimension to the systems, to the practices and the procedures used.

In the case of approaches relating to the management system of companies, it is necessary to take into account a better evidence of the stakeholders and a continuous improvement of the reporting practices with a view to facilitating a continuous and efficient process of internal and external monitoring of the quality of the sustainability of normal and investment processes within the companies.

The sustainable development will be taken into account both in the processes of planning business and in the field of the management of information and control systems.

Devising a process of sustainable good practice at the level of the companies' management systems in the light of carrying out foreign direct investment must take into account the following concrete actions:

1. The analysis of the stakeholders

This phase requires taking into account and listing all the stakeholders and/or the factors affected by the activity of the multinational company. To that end, the following categories of persons will be listed as well as their interests in relation to the investment activity of the company: shareholders, providers and customers, creditors, employees and the population of the community in the area in which the foreign direct investment is carried out. All this information has the role to provide a better information concerning the company's state and to identify, by means of investment projects, the eventual possibilities of valuing some opportunities noticed during this phase. As long as this information is made clear, we pass to emphasizing and analysing the effects of the company's investments on the environment, the population and of assessing the needs of the

future generations. The management team must assess the present and the future needs of each category of stakeholders, highlighting as well the possible problems for covering them, both in the present and in the future. This process must have a continuous character if we also take into account the permanent change in the needs, preferences, or the exigencies of the stakeholders. The analysis of conflicts between these factors represents an important source of information which is also necessary to achieve the objectives of sustainable development.

2. The drawing up of sustainable development policies and objectives

Drawing up the directions for action related to sustainable development: environment, reduction of poverty, social equity and others. It is important that each policy should be explained by the general manager to the stakeholders and that it should be clearly appropriated by them. Mentioning the objectives to be achieved under the form of concrete indicators for achievement represents the key to accomplishing the sustainable development plan. In the case of foreign direct investment, the manager of the company must ensure that all the stakeholders took notice of the company's intentions, that the results of the investment include the objectives characteristic to the process of sustainable development and that these objectives were correctly understood by the whole community in the host country. In order to provide a good definition of the company's managerial policy, we must resort to an external monitoring of the whole process which should take into account some key subjects such as: new legislative regulations and those which were proposed, the standards and the practices specific to this field, the competition strategies, the policies and the activities of the community and of the stakeholders' groups, the aspects concerning the trade union issues, the technological development. By monitoring the aspects related to the new foreign direct investment, companies ensure that the policy adopted at the level of the management system corresponds to the dynamic environment in which the company's activities take place.

3. The preparation and the accomplishment of the implementation plan

In order to achieve the objectives of sustainable development which were drawn up, changes in the management systems are necessary. These changes concern the whole organisational structure of the company and they refer to: changes in the organisational culture and in the attitude of the employees, the definition of responsibilities, the setting up of organisational structures, the systems for reporting the information and the organisational practices. All the departments of the multinational companies must be influenced by the implementation of the sustainable development plan: the organisational system, the cultural changes, business planning, marketing activities, production, financial planning. The successful implementation of the planned policies depends greatly on reconsidering many of the corporate, material and non-material aspects.

4. The development of a corporate culture of support

In order to successfully achieve the objectives of the implementation plan for the sustainable development at the level of the multinational companies, it is necessary for employees to be involved in the whole process of transformation. According to their involvement, we can talk about the success or the failure of the different policies which were adopted. This practice is not always efficient if it is not accompanied by a programme of continuous training and development for the employees which should contribute to their awareness-raising concerning the influence of pollution on the ecosystems, the importance of resources in the development of human civilization and the need to increase the people's standard of living. A fact which must be taken into consideration is that a great part of the employees who will be involved in carrying out and operating investment will be from the host country; in this way the motivation and training degree could be different according to the characteristics of that country.

5. The development of measures and performance standards

With a view to a good internal or external assessment of the activity of the company and its headquarters which carry out the foreign direct investment, it is necessary to set up a reference system regarding the performances attained. The correlation between the real values and these values will define the quality of the sustainable development process which was implemented. Although many times the companies are the first ones which lay down such standards and reference levels in case they exist at the national level, it is good for the enterprise to collaborate with the

state in order to achieve a monitoring and reporting system which should be efficient and should comply with both the exigencies of the population and those related to the business. In the case of foreign direct investment, this process could be very complex, especially owing to the differences in approaching the issue of sustainable development in the host country and in the country from which the companies originate.

6. The preparation of reports

The internal reports are useful for the managers of the company in order to monitor the implementation of the strategy and the sustainable development policies. However, the other stakeholders (shareholders, employees, creditors, customers, population) also use the external reports in order to assess the performances of the corporation regarding the carrying out of activities and the achievement of some sustainable investment projects. The preparation of reports must also take into consideration the cultural peculiarities of the different countries as well as their destination.

7. The improvement of the process of internal monitoring

The need to set up a personal system for monitoring and internal audit at the level of their corporations and headquarters represents an important aspect taking into account that the activities which take place can have a strong impact on the environment. The procedure for the implementation of sustainable development can affect many of the aspects related to companies.

The whole process relating to the organisation of the implementation of the sustainable development policies is therefore objectified through an overall transformation of the management system and of the techniques tackled by the management team. Considering the structural complexity of the multinational companies and the particularities of the investment processes in which they are involved, it is worth mentioning that a systemic approach of the whole process represents the key to achieving the proposed goals. The legislative particularities and those related to regulations in the field of sustainable development in each country always require new approaches at the level of the management of multinational companies.

CONCLUSIONS

In a world of change, the management of enterprises is constantly adapting to all the environments which enter its sphere of influence. When the change is required by major problems which the general natural environment and the whole society face, the concept of sustainable development comes into play, by means of which the decision-making factors aim at solving the existing problems without disregarding the upcoming problems. Nevertheless, this process is much more complex than the most complex problems which the economic agents have encountered so far. Furthermore, when the activity takes place in the economic and social environments in countries with different characteristics, experiences, cultures and expectations like in the case of foreign direct investment, there must be evidence of very much depth, organisation and prediction on the part of the management of multinational companies.

The governments in different countries are the ones which have the role to assign economy and its agents a "sustainable" behaviour directed towards people and the future. On the one hand, multinational companies answer to these stimuli, but they have the possibility to forecast and prepare actions and targets which will finally offer them a long-term competitive advantage.

In case of carrying out direct investments abroad, although many companies aim at valuing resources and favourable circumstances of different countries, the responsible companies organise the management system following implementation plans for sustainable development. They are carefully and thoroughly prepared so that the investments will not lose their efficiency, but, however, they will comply with the social and the environmental standards from the countries in which they were carried out.

Considering that the markets and the economies would be efficient enough so that the information could be equally distributed and the disturbing factors could be isolated, the sustainable multinational companies should record the effects related to the efforts achieved. With that end in

view, the economic instruments of governments are meant to discourage the unlimited consumption of resources, the continuous pollution and the use of work regardless of the state of those who provide it. In these circumstances, the decisions of companies with regard to sustainable development really become strategic managerial measures having well-defined and justified goals.

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