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Does Outsourcing Lead to the Decoupling of Sustainability Practices in MNEs' Supply Chains: A Conceptualization

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ABSTRACT

The primary objective of this research aims to investigate why outsourced partners often decouple from the standard sustainability principles of Multinational Enterprises (MNEs). This study shall utilize a qualitative research methodology based on an interpretivist research paradigm. The case study strategy will be used to investigate the difficulties faced by MNEs with keeping up with sustainability standards in supply chains. Data collection will be conducted through in-depth interviews directed by a semi-structured interview guide that targets a sample size based on the level of saturation. Thematic analysis will be used as the primary data analytical tool for identifying patterns and insights. The implications of this research include enhancing understanding of the intersection between outsourcing and sustainability within the context of Multinational Enterprises (MNEs). Unlike previous studies, this research specifically addresses how outsourcing relationships impact the sustainability efforts of MNEs, a relatively unexplored area in existing literature. By shedding light on the challenges and providing solutions to ensure adherence to sustainability practices by outsourced partners, this study adds value to the existing body of knowledge on supply chain management and corporate responsibility. This study contributes to theory by conceptualizing sustainability decoupling and offers practical guidance for MNEs to govern sustainability across outsourced partners.

Keywords: *Decoupling, Outsourcing, Supply Chain, Sustainability*

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1. INTRODUCTION

In the domain of International Business (IB), the literature now a days weighed more towards the study of activities of the supply chain of MNE rather than internal operations (Narula, 2019; Preuss et al., 2024). There is an increasing expectation for businesses, in particular Multinational Enterprises (MNEs), to manage sustainability issues across their supply chain and within their internal operations more effectively (George et al., 2024; Preuss et al., 2024).

Internalization theory in IB has previously emphasized the MNE's control of internal capabilities and explains why firms retain foreign assets control when expanding internationally rather than outsourcing or entering to strategic alliances (Rugman & Verbeke, 2008). However, in the contemporary business world, the ability to orchestrate complex networks is a key source of competitive advantage (Asmussen et al., 2022; Preuss et al., 2024).

In most instances, the direct involvement of MNEs in outsourced partners' activities and the global supply chain is limited (Narula, 2019; Preuss et al., 2024), but they usually dictate their immediate suppliers and related parties in the supply chain. Significant sustainability challenges often lurk in various other tiers of the supply chain and the organisation cannot influence or monitor such activities. Therefore, the focal firms tend to monitor only their immediate supply chain partner while cascading the responsibility of sustainability assurance to suppliers, requesting first tier partner to watch over the actions of second tier partner (Preuss et al., 2024; Wilhelm & Villena, 2021). Hence sustainability is not accurately assured within the value chain of an MNE.

According to Villena and Gioia (2020), statistics have proven that some of major players in the consumer electronics and computer hardware industry have collaborated with global suppliers that compelled employees to work in hazardous environments; popular shoe manufacturers have used suppliers who were dumping pollutants into Chinese rivers. Furthermore, all of the scandals involved first-tier suppliers. Lower-tier suppliers nearly have even weaker practices, exposing businesses to substantial financial, social, and environmental hazards. Five lower-tier suppliers selected on random basis at Mexico were lacking environmental management systems, and four lacked procedures for dealing with red-flag

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social issues such as sexual harassment, supervisor retribution, and hazardous working conditions (Villena & Gioia, 2020). As long as MNEs does not catch such activities of the supply chain, they may produce themselves as a sustainable entity to the world.

However, these sustainability failures at deeper supply chain levels often go undetected by MNEs, allowing them to portray a sustainable image while practices further down the chain may be in direct contradiction. This research addresses the problem that outsourced partners often decouple from the sustainability expectations set by MNEs, resulting in a misalignment that undermines corporate responsibility efforts. Despite the growing importance of sustainability in global supply chains, limited empirical research has explored why this decoupling occurs, especially in outsourced relationships.

2. LITERATURE REVIEW

2.1. Sustainability and Supply Chains

Sustainability has been defined as the "development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (World Commission on Environment and Development [WCED], 1987, p.43). Biddle (2011) has viewed sustainability in a broader perspective which aggregates all of the above views and claims that sustainability involves interacting with the environment in such a way that it is not detrimental to future generations and considers about the triple bottom line approach which weighs environmental, economic, and social performance that can help to operationalize sustainability (Li et al., 2014; Seuring & Müller, 2008). Sustainability has also been developed as a strategy of achieving competitive advantage (Christ et al., 2017; Garri, 2022).

Sustainability practices in supply chains encompass a range of activities aimed at minimising environmental impact and promoting social responsibility. These practices include sustainable sourcing, waste reduction, energy efficiency, and ethical labor practices (Hart & Milstein, 2003). The integration of sustainability into supply chain management is increasingly viewed as a competitive advantage, as consumers and stakeholders demand greater corporate responsibility (Henriques & Sadorsky, 1999). Despite the growing emphasis on sustainability, many firms face challenges in implementing these practices throughout their supply chains. The complexity of global supply chains, coupled with varying regulatory environments, can hinder the adoption of consistent sustainability standards (Montiel et al., 2021).

This has led scholars to examine not only what sustainability means in a theoretical sense but how it is enacted across complex, multi-tiered global supply chains. The literature increasingly points to a paradox in which MNEs outwardly commit to sustainability goals while internal systems and external partnerships lack the necessary alignment, leading to implementation gaps. This complexity often leads to a decoupling of sustainability practices, where firms publicly commit to sustainability while failing to implement corresponding practices in their operations.

In the past, firms chose their strategic suppliers based on economic performance, including the product quality, price, and delivery lead times. But now a days, to achieve sustainability, firms must evaluate suppliers based on triple bottom line, rather than depending solely on financial benefits (Lee et al., 2009; Li et al., 2014). Multinational Enterprises have traditionally used contractual mechanisms (Bird & Soundararajan, 2020; Soundararajan et al., 2021) by written agreements that establish modes of engagement and remedies for violations and unexpected risks to cope with sustainability management problems caused by growing market supply chains. MNEs in emerging markets face challenges in trusting suppliers due to weak national enforcement and poor infrastructure (Witt et al., 2017). To address this, they are increasingly relying on social audits (Locke et al., 2009; Soundararajan et al., 2021) to measure sustainability conduct. To implement an effective sustainability governance framework, MNEs need emergent and adaptive supply chains (Huq et al., 2014; Soundararajan et al., 2021) and partners should collaborate to create sustainable solutions that benefit both parties (Mena & Palazzo, 2012;). To achieve sustainable supply chains, organisations should incorporate environmental goals into their long-term strategies (Li et al., 2014; Min & Galle, 1997). Firms can ensure supply chain sustainability by evaluating suppliers' environmental performance, ranking them, awarding improvements, and mandating

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an environmental management system. High-scoring suppliers should be retained in the supply base (Bowen et al., 2001; Li et al., 2014). Collectively, these insights build a foundation to explore why, despite best practices and governance mechanisms, there remains a persistent disconnect between MNEs' stated sustainability goals and the realities of their supplier behaviour.

2.2. Institutional Theory

In paying attention to the domain of International Business, Aguilera and Grogaard (2019) highlight that there are numerous strands of institutional theory. This might be possible because international businesses including Multinational Enterprises tend to operate in multiple host countries which might have multiple institutional contexts (Marano & Kostova, 2024). In paying attention to the neo-institutional theory, it is important for MNEs and their various supply chain partners to be isomorphic to achieve legitimacy among host country stakeholders (DiMaggio & Powell, 1983; Martinez-Ferrero & Garcia-Sanchez, 2016; Weerasekera, 2024). Isomorphism simply refers to the achievement of similar status with other competing organisations in the field (DiMaggio & Powell, 1983). Accordingly, an organisation faces mainly three institutional pressures to achieve isomorphism and thereby gain legitimacy. Firstly, coercive isomorphism can be achieved by complying with the rules and regulations of the host country, secondly normative isomorphism requires the organisation to comply with the moral and cultural values of the host environment (Beddewela & Fairbrass, 2015) and thirdly mimetic isomorphism encourages MNEs to imitate competitors operating in the host country.

There are various solutions available for MNEs to ensure legitimacy, they include Corporate Social Responsibility (CSR), training employees, and sustainability initiatives (Weerasekera, 2024). Ensuring legitimacy through sustainability initiatives is likely to be influenced by strong institutional factors (Boiral & Gendron, 2011; Kolk & Perego, 2010). Li et al. (2018) mention that MNEs' sustainable practices as well as CSR practices can have a significant impact on the long-term performance and survival in the host country as well as the relationship that they have with the host country's government. The institutional pressures faced by MNEs are not only internal but extend to their external network of suppliers and outsourcing partners, making alignment across actors a critical factor for success.

Nevertheless, when MNEs outsource their non-core operations to various suppliers there might be various challenges in the effective implementation of sustainability practices (Murcia et al., 2021). Outsourcing is when firms transfer their non-core operations to specialist external parties (Gilley & Rasheed, 2000). It can lead to numerous benefits for the global firm and is often considered an alternative to vertical integration (Contractor et al., 2010; Murcia et al., 2021). Accordingly, when the focal MNE implements sustainability practices, the outsourcing partners might not comply and there might be a lack of coordination between these outsourcing partners and the focal MNE (Holcombe & Hutt, 2007; Murcia et al., 2021). From an institutional perspective, this gap may be attributed to the fact that institutional pressures often weaken or become diluted as they extend beyond the MNE to its outsourced partners. This creates a governance vacuum that facilitates decoupling behaviour. From an institutional perspective, this gap may be attributed to the fact that institutional pressures often weaken or become diluted as they extend beyond the MNE to its outsourced partners. This creates a governance vacuum that facilitates decoupling behaviour. Therefore, this study has attempted to explain the extent to which outsourcing partners of MNEs align with the focal MNE in terms of the neo-institutional theory.

2.3. Outsourcing and Decoupling of Sustainability in Supply Chain

Outsourcing refers to the practice of contracting business functions or processes to third-party providers. In the context of supply chains, outsourcing can take various forms, including offshoring, nearshoring, and subcontracting.

Organizations usually desire to reduce costs and enhance efficiency, (Kedia & Mukherjee, 2009). According to McIvor and Bals (2021) the decision to outsource is influenced by factors such as cost considerations, market dynamics, and the need for flexibility. Outsourcing can lead to improved operational performance and competitiveness (Gualandris et al., 2014). However, it also raises concerns regarding the potential negative impacts on sustainability.

When considering regions with lower environmental regulations, they may unknowingly contribute to environmental degradation (Li & Zhou, 2017).

Decoupling can occur when firms rely on third-party suppliers to implement sustainability initiatives without integrating practices into their overall supply chain strategy. Several studies have highlighted multifaceted risks associated with decoupling. MNEs often struggle to maintain visibility into the socio-environmental practices of their suppliers, particularly in emerging markets where regulatory frameworks may be weak (Kim & Davis, 2016). Outsourcing can lead to decoupling, as partners may prioritize cost savings over sustainability, resulting in a lack of accountability for socio-environmental impacts (Mair & Marti, 2009). This gap between sustainability policy and practice becomes even more pronounced when institutional oversight is limited, leading to symbolic compliance at best. The decoupling phenomenon is thus central to understanding the challenges MNEs face in enforcing sustainability across increasingly fragmented and outsourced supply chains.

3. CONCEPTUAL DEVELOPMENT

The primary novelty of this study lies in the decoupling of sustainability practices by outsourced partners in outsourcing relationships of multinational enterprises. This study examines the concept ‘Sustainability Decoupling’ which refers to the tendency of outsourced third-party supply chain partners deviate from already established standard sustainability practices of the said MNE. This is a unique angle of this research that has not been fully explored in existing literature. This concept of sustainability decoupling provides a lens in keeping up with the sustainability practices across the supply chain. Though MNEs have a standard set of practices with regard to sustainability, those can be impractical when dealing with third party companies. Factors such as financial constraints and costs, scarcity of resources, different host country regulatory requirements may lead to decoupling by outsourced partners. Sustainability decoupling highlights the tension between standard sustainability practices of MNEs and practical constraints that are faced by third-party outsourced companies which in turn brings the need for nuanced approach to managing such relationships.

In contrast to complete decoupling, some outsourced partners may still partially comply with MNE sustainability standards under specific enabling conditions—a phenomenon termed 'Conditional Sustainability' (Prager & Pierce, 2006b). According to this concept, there can be a variation in the level of commitment towards standard sustainability practices influenced by cost pressures, organisational requirements, legal requirements, MNE requirements etc. For example, outsourced partners may adhere to some sustainability standards given that they have benefits over it. It can be direct monetary benefits or any other form of incentive.

In summing up, it can be arrived at a model to explain the factors that influence sustainability decoupling by third parties when MNEs outsource their supply chain activities. Primary factors are suggested to be cost pressures, scarcity of resources, legal requirements in the host country and cultural differences that can be seen between concerned Multinational Enterprise and outsourced third-party company. By focusing on these elements, this framework provides an approach to understand the real reasons as to why outsourced partners do not comply with standard sustainability practices of MNEs.

4. RESEARCH METHODOLOGY

This study adopts a qualitative methodology aligning with prior studies that have explored Multinational Enterprises' outsourcing and sustainability within their supply chains (Preuss et al., 2024; Marano et al., 2024). The researchers have adopted an interpretive paradigm to gain a comprehensive understanding about the sustainability practices within the supply chains of selected MNEs, particularly in relation to their outsourced partners. This is a conceptual study, and therefore no empirical data collection has been conducted. Instead, the study builds on an extensive and critical review of existing literature, drawing from relevant theories and prior empirical findings to develop a new conceptual framework. The primary aim is to theorize the mechanisms through which outsourced partners may decouple from the sustainability practices of the parent MNE.

While the authors propose a future empirical phase to validate the conceptual framework, this lies outside the scope of the current study. In that future phase, data may be collected through in-depth interviews with supply chain and sustainability professionals in MNEs, and analyzed using thematic analysis following Braun and Clarke (2006). However, this methodological step is suggested only as a potential direction for future research.

5. IMPLICATIONS OF STUDY, LIMITATIONS AND AVENUES FOR FUTURE RESEARCH

5.1. Theoretical Implications

When discussing theoretical implications, this research has made specific identification and an advancement to the existing body of knowledge regarding studies that have already focused on ability of Multinational enterprises to manage sustainability challenges across its supply chain (Preuss et al., 2024). It also extends the study conducted by Li et al. (2014) regarding the role of sustainability orientation in outsourcing with practices and outcomes. The study conducted by Garri (2022) is also related to this study which emphasizes the sustainability strategies of MNEs in emerging and developing markets which is also an extension of this study. The above studies can be cited as extensions of the current study since the current study too focuses on MNEs and their outsourcing activities and strategies to manage sustainability across the supply chain. Importantly, this study introduces the novel constructs of "sustainability decoupling" and "conditional sustainability" to explain the gap between formal sustainability commitments and actual practices in outsourced tiers of global supply chains. This contributes to the literature by applying institutional theory to multi-tier outsourcing contexts, which remains an underexplored area. By developing a framework to explain when and why decoupling occurs, the study provides new conceptual clarity and theoretical grounding for future empirical investigations.

5.2. Managerial Implications

From a managerial perspective, managers can proactively address challenges that pop up across the supply chain with regard to maintaining sustainability standards. Also, it helps to understand the practical reasons as to why outsourced partners decouple. The research also suggests different strategies that can be used to maintain sustainability across the supply chain. By incorporating those strategies, managers can make sure that sustainability standards are upheld by all partners in the supply chain irrespective of their size or location. Furthermore, the framework equips managers with early warning indicators of decoupling and offers practical tools for strengthening supplier engagement, enhancing transparency, and improving monitoring across multiple tiers. It encourages a shift from compliance-focused governance toward relational and capability-building strategies to ensure sustainability alignment even with distant or resource-constrained suppliers.

5.3. Policy Implications

This study offers policy-level insights for governments and transnational regulatory bodies seeking to support responsible global supply chains. By identifying systemic drivers of sustainability decoupling such as institutional distance, cost pressure, and legal fragmentation, the study highlights the need for stronger and more harmonized international sustainability standards. Host-country governments in developing markets can also leverage these findings to better align domestic regulations with global expectations, reducing the compliance burden for local suppliers.

5.4. Limitations and Avenues for Future Research

In paying attention to the limitations of this study, this is a conceptual study, and further exploration is needed to test the validity of the concept highlighted by the research, including the accuracy of factors: cost pressures, scarcity of resources, legal requirements in host country and cultural differences towards decoupling. Since the proposed framework has not yet been empirically validated, its explanatory power and practical relevance remain untested. Future research must empirically examine the causal relationships proposed in this study to establish robustness.

Moreover, the current study has proposed only in-depth interviews as a data collection method for future researchers. Hence, future researchers can focus on secondary data such as company annual reports, press releases and even participant observation to enrich the findings.

Future studies can further investigate decoupling in international business not only in terms of sustainability but also on various other contemporary issues such as geopolitical tensions, natural disasters, economic crises, and shifts in global labour governance regimes. Longitudinal studies could also reveal how decoupling evolves over time, and comparative studies between industries could offer further nuance to the framework's applicability.

6. CONCLUSION

This study conceptualizes the phenomenon of sustainability decoupling in outsourced supply chains, particularly in the context of multinational enterprises operating in emerging markets. It introduces the construct of conditional sustainability to explain how certain external and internal pressures influence the divergence of sustainability practices among outsourced partners. By doing so, the study advances scholarly understanding of sustainability governance beyond the traditional focus on first-tier suppliers, addressing a critical gap in institutional theory related to multi-tier supply chains.

The proposed framework offers a distinctive contribution by integrating structural, contextual, and behavioural factors that drive decoupling, thus setting a strong foundation for future empirical validation. This conceptual groundwork paves the way for more informed debate and research on sustainability diffusion, compliance, and governance in complex global value chains.

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