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Investing up: FDI and the Cross-Country Diffusion of ISO 14001 Management Systems

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Competition to attract foreign direct investment (FDI) creates opportunities for multinational enterprises (MNEs) to diffuse corporate management practices from their countries-of-origin (home countries) to countries hosting their foreign operations. We examine conditions under which MNEs transfer corporate environmental practices from home countries to host countries. Our focus is on ISO 14001, the most widely adopted voluntary environmental program in the world. We examine inward FDI stocks and ISO 14001 adoption levels for a panel of 98 countries, and a subset of 74 developing countries, for the period 1996-2002. We find support for the country-of-origin argument in that inward FDI stocks are associated with higher levels of ISO 14001 adoption in host countries only when FDI originates from home countries that themselves have high levels of ISO 14001 adoption. Countries' ISO adoption levels are associated not with how much FDI host countries receive overall but from whom they receive it. Three implications emerge from this study: (1) FDI can become an instrument to perpetuate divergence in corporate practices across the world; (2) economic integration via FDI can create incentives for firms to ratchet up their environmental practices beyond the legal requirements of their host countries; (3) instead of racing down to match the less stringent corporate practices prevalent in developing countries, developed countries can employ FDI outflows to ratchet up corporate practices abroad given that developing countries are net recipients of developed countries' FDI outflows.