

## Research paper

### **The Role of Multinational Companies in Sustainable Socioeconomic Development: The Case of Palestine**

#### **Abstract**

The purpose of this study is to investigate different aspects of the Strategic Success Paradigm developed by Ansoff (1984) and examined the relationships among MNCs' environmental turbulence, MNC strategy aggressiveness, MNC capability responsiveness, and MNC corporate social responsibility (CSR) posture in Palestine. The proactive CSR approach is characterized by interactive business practices, where management involves external stakeholders' from the beginning from an issues life-cycle. The *inside-out* and the *outside-in* approaches define trends, threats, and opportunities in and to the firm's business environment. This form of CSR creates medium-term profitability and long-term sustainability.

The methodology for this research study was based on the Strategic Success Paradigm presented by Ansoff and McDonnell (1990). This methodology was operationalized in this study through the relationship between MNC environmental turbulence, MNC aggressiveness, and MNC capability responsiveness. Specifically, the study hypothesized that organizational performance was improved when MNC strategy aggressiveness, MNC capability responsiveness, and MNC CSR strategic posture were aligned with MNC issue turbulence. As part of the MNC's strategy, CSR was considered an integral part of the overall core business strategy to optimize economic and social performance for companies operating in Palestine.

The target population for this research included multinational corporations (MNCs) and domestic Small and Medium Enterprises (SMEs) that had operations in or were contemplating undertaking FDI investment in Palestine. An online survey data used and the results by using Spearman's rho, there are statistically significant relationship between MNC CSR posture and MNC financial performance; between MNC CSR posture and MNC social performance and between MNC financial performance and MNC social performance in Palestine.

This study provides practical implication to researchers and professionals with tools for aligning the business environment with the political environment and for maximizing stakeholder legitimacy strategy and CSR for optimal financial and social performance. It contributes to the field of strategic management by empirically testing and validating hypotheses regarding the relationships between environmental turbulence, MNC strategy aggressiveness, and MNC capability responsiveness for MNCs operating in a conflict-prone zone such as Palestine.

**Keywords:** strategy aggressiveness, capability responsiveness, corporate social responsibility posture, Palestine

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## Introduction

46 Integrating corporate social responsibility (CSR) into MNC's core business has  
47 become the center of management decision-making. MNCs face challenges to provide  
48 products and services that add value to society and to prompt economic development and  
49 social transformation in host countries. According to Ansoff and McDonnell (1990), the  
50 firm of the future would become a socioeconomic institution, and the firm's business  
51 strategy would not be based purely on financial performance, but would include political  
52 and social considerations along with its commercial ones.

53 The turbulent political environment in Palestine, coupled with severe  
54 socioeconomic conditions, presents multinational companies with external societal  
55 challenges. Successful multinational companies operating in this challenging market  
56 have diagnosed their environmental turbulence with inside-out and outside-in approaches  
57 to optimize their long-term economic and social profitability. Trucker and Broom (1993)  
58 defined an organization's issue management as a management process wherein the goal is  
59 to preserve its markets, reduce risks, and create opportunities to manage assets for the  
60 benefit of the organization and the public. Saunders and Thorne (2002) agreed that there  
61 is a need for ethical and socially responsible issues management to be integrated as part  
62 of the organization's strategic management decision-making.

63 This study examined the background of the MNC issue management and clarifies  
64 the strategic approach of CSR as an integral part of the overall core business strategy for  
65 optimal organizational performance for companies operating in Palestine. This study is

66 one of the first researches that examine the role of multinational companies (MNCs) and  
67 their impact on sustainable socioeconomic development in Palestine.

68 This study contributes to the field of strategic management by empirically testing  
69 and validating hypotheses regarding the relationships between environmental turbulence,  
70 MNC strategy aggressiveness, and MNC capability responsiveness for MNCs operating  
71 in a conflict-prone zone such as Palestine. The study provides researchers and  
72 professionals with tools for aligning the business environment with the political  
73 environment and for maximizing stakeholder legitimacy strategy and CSR for optimal  
74 financial and social performance.

75 The target population for this research included multinational corporations  
76 (MNCs) and domestic Small and Medium Enterprises (SMEs) that had operations in or  
77 were contemplating undertaking FDI investment in Palestine. An online survey data was  
78 used to collect responses from companies for correlational study. Nine hypotheses were  
79 tested using Spearman's rho, a non-parametric measure of statistical dependence between  
80 2 variables for a significance level of 5% ( $p < .05$ ). Statistically significant relationship  
81 between MNC CSR posture and MNC financial performance; between MNC CSR  
82 posture and MNC social performance and between MNC financial performance and  
83 MNC social performance were found. The practical implication with integrating  
84 corporate social responsibility (CSR) into MNC's core business would improve the  
85 organization's financial and social performance in Palestine.

86 The rest of the paper is organized as follows: Section 2 presents literature review,  
87 Section 3 discusses model and methodology, Section 4 presents data, Section 5 discusses  
88 findings, and finally, Section 6 concludes the research.

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## 2. Literature Review

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Ansoff and McDonnell (1990) formulated the Strategic Success Paradigm (SSP) to define the relationships between a firm's performance and its environmental turbulence and between strategy aggressiveness and capability responsiveness, as they ultimately relate to strategic posture. The Strategic Success Paradigm provides a framework for diagnosing the future prospects of a given firm. This model has been empirically validated through the work of several authors, including Lewis (1989), Moussetis (1996), Abu-Rahma (1999), Lorton (2006), Kelly (2008), and Loebbaka (2008). This research study evaluated the role of sustainable corporate social responsibility programs (CSRs) as related to Ansoff's Strategic Success Paradigm.

Ansoff (1984) developed the concept of environmental turbulence to describe the different environments. He classified different environments upon which firms operate according to five distinct turbulence levels. Ansoff identified a concomitant level of success for every level of turbulence. Ansoff and McDonnell (1990) defined four characteristics that define environmental turbulence. Table 1 reflects these levels of environmental turbulence. The four characteristics are the following: (a) complexity, where the business environment becomes more complex and the pace of change increases, resulting in an increase of turbulence level; (b) familiarity of events; (c) rapidity of change, and (d) visibility of the future.

The level of "environmental turbulence" describes the types of opportunities, threats, and trends in the environment that an MNC faces in its international operations.

112 Palestine is characterized and encumbered by, a small market and an uncertain political  
 113 and business environment, which creates multifaceted threats, surprising trends, and  
 114 bountiful opportunities. MNCs must vigilantly watch and measure these conditions for  
 115 relevance to their processes and policies.

116 Table 1 *Levels of Environmental Turbulence*

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| Level                      | 1                    | 2            | 3                      | 4                     | 5                   |
|----------------------------|----------------------|--------------|------------------------|-----------------------|---------------------|
| Turbulence Characteristics | Repetitive           | Expanding    | Changing               | Discontinuous         | Surprising l        |
| Complexity                 | National             | +            | Regional               | +                     | Global              |
| Familiarity of Events      | Familiar             | Extrapolable |                        | Discontinuous         | Discontinuous Novel |
| Rapidity of Change         | Slower than Response |              | Comparable to Response |                       | Faster to Response  |
| Visibility of Future       | Recurring            | Forecastable | Predictable            | Partially predictable | Unpredictable       |

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119 According to the Rhetoric and Realities in CSR (RARE) (2005) project

120 approach to analyzing CSR in Europe, two different forms of CSR processes exist

121 (p. 18). RARE holds that the two legs it forms of CSR are the “*built-in*” and “*bolt-on*.”

122 When CSR is “*built-in*,” it constitutes an integral part of the company’s operations and

123 includes efforts to (a) make corporate processes more sustainable; (b) improve the social

124 properties of products and services; (c) promote sustainable marketing; (d) manage raw

125 material extraction and “greening” of material sources; (e) create sustainable production

126 and distribution processes; and (f) promote fair trade practices and consumer information

127 and compliance with ILO labor standards, including the renunciation of child labor. The  
128 instrument of CSR is defined as a tool to facilitate the incorporation of sustainability  
129 concerns into a company's operation

130 On the other hand, when CSR is "*bolt-on*," companies engage in socially  
131 beneficial initiatives and activities beyond their core business operations by collaborating  
132 with external stakeholders to integrate the objectives of the company as part of their  
133 mission statement.

134 According to Ramirez, Selsky, and Heijden (2008), CSRs serve as a platform for  
135 common grounds where organizations and their stakeholders can realize both their  
136 corporate objectives and societal needs. Their findings suggested that turbulence might  
137 be mitigated with the help of CSR, if CSRs were implemented in a manner that ensured a  
138 positive, stabilizing influence. In developing countries, CSRs tend to be weak, with  
139 serious macroeconomic constraints that might concentrate company attention onto issues  
140 of basic viability and on securing shareholders' returns (Jamali, 2007). According to  
141 Clarkson (1995), an organization's capability of satisfying stakeholders' demands is a  
142 key factor that determines the organization's competitive advantage.

143 Ansoff and McDonnell (1990) defined the general management capability of an  
144 organization as consisting of two key factors, the capabilities of the general managers and  
145 the capabilities of the management organization. According to Ansoff and McDonnell,  
146 levels of strategic aggressiveness and capability responsiveness appropriate to the level of  
147 environmental turbulence are required for business success. Matching Aggressiveness  
148 and Responsiveness to Turbulence, describes the appropriate strategy aggressiveness and  
149 responsiveness levels that are necessary for success through each turbulence level.

150 Basically, the CSR management system represents the capabilities of the top management  
151 to craft the CSR initiatives. D'Amato, Henderson, and Florence (2009) cited that  
152 leadership competencies included courage, business acumen, and a vision of the  
153 company's legacy. They added that a leader should be remembered as a person who  
154 designed, not just a company, but a society that is educated and economically sustainable.

155 The complex way organizations understand themselves in relation to stakeholders  
156 sometimes requires major transformations with respect to policies and, in this case, to  
157 policies specific to sustainable development (D'Amato, Henderson, & Florence, 2009).  
158 According to Berkhout (2005), corporate social responsibility can be a strategic engine  
159 for long-term corporate profit and responsible social development, even where there are  
160 complex, dire issues to be dealt with. While there are challenges to daily operations  
161 under the principles of CSR, companies can still balance their social and environmental  
162 responsibilities with their responsibility to earn a profit (Berkhout, 2005).

163 To date, there has been little discussion about transformational efforts to build an  
164 MNC role in sustainable socioeconomic development around the world (Boyle &  
165 Boguslaw, 2007). This research, which studied the role of MNCs in sustainable  
166 socioeconomic development, specifically in the troubled region around Palestine, is  
167 unique as it hypothesized strategic CSR integration with core MNC business strategies  
168 with the larger goal of creating sustainable development that further leads to a secure,  
169 peaceful, and sustainable world.

### 170 **3. Research Methodology and Model**

171 The methodology for this research study was based on the Strategic Success  
172 Paradigm presented by Ansoff and McDonnell (1990). This methodology was

operationalized in this study through the relationship between MNC environmental turbulence, MNC aggressiveness, and MNC capability responsiveness. Specifically, the study hypothesized that organizational performance was improved when MNC strategy aggressiveness, MNC capability responsiveness, and MNC CSR strategic posture were aligned with MNC issue turbulence. The environmental turbulence was the driving variable that determined whether the firm's strategic behavior would succeed in an environment. As part of the MNC's strategy, CSR was considered an integral part of the overall core business strategy to optimize economic and social performance for companies operating in Palestine.

The two processes can be considered as a continuum with management systems "building in" responsibilities beyond compliance with regard to both goals and measures followed by codes of conduct and reporting activities, while contributing at the same time to sustainable development. The CSR management system aggressiveness requires that the firm's top management craft a CSR plan to transform the firm's behavior. The elements that contribute to CSR sustainable management system aggressiveness are derived from the elements of strategic aggressiveness in Ansoff's Strategic Success Paradigm (Ansoff & McDonnell, 1990). Table 2 summarizes the five levels of CSR management system aggressiveness that correspond to the five levels of MNC issue turbulence. Table 2 summarizes the five levels of CSR management system aggressiveness that correspond to the five levels of MNC issue turbulence.

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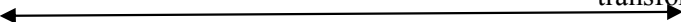
194 Table 2 *CSR MNC Management System Aggressiveness Verses MNC Issue Turbulence*

|                                  | Turbulence Level                                                     |                                                                  |                                                                                   |                                                                      |                                                         |
|----------------------------------|----------------------------------------------------------------------|------------------------------------------------------------------|-----------------------------------------------------------------------------------|----------------------------------------------------------------------|---------------------------------------------------------|
|                                  | 1                                                                    | 2                                                                | 3                                                                                 | 4                                                                    | 5                                                       |
| Turbulence Characteristics       | Static/ Repetitive                                                   | Slowly changing                                                  | Rapidly changing                                                                  | Discontinuous                                                        | Surpriseful                                             |
| CSR Company Approach             | Fiduciary duty management<br>Profit Maximization<br>Public relations | Corporate reputation<br><br>Public affairs                       | Corporate communications<br>Business ethics<br>Philanthropy<br>Corporate identity | Strategic issue management<br><br>Strategic philanthropic activities | Strategic CSR leadership                                |
| CSR Stakeholder Approach         | Stakeholder information with no interaction                          | Stakeholder debate                                               | Stakeholder dialogue and informal contacts                                        | Interactive strategic stakeholder dialogue                           | Partnerships and alliances                              |
| Use of Technologies              | Use only current existing technologies                               | Adapt to new technologies and quality control management systems | Implement periodic/incremental technologies                                       | Implement continuous/incremental creative technologies               | Seek novel technologies                                 |
| Change Management                | Reject change and seek stability                                     | Welcome change for existing instruments                          | Adapt to change for new CSR instruments                                           | Change for potential risk and opportunity                            | Integrate creative change                               |
| CSR Strategy Integration Mindset | Maintain CSR strategy isolation                                      | Maintain financial responsibility to shareholders                | Maintain profit maximization with limited philanthropic activities                | Strategic issue management and strategic philanthropic activities    | Strategic CSR as a form of engagement with stakeholders |

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On the other hand, CSR management system responsiveness represents the ability of the CSR management system to respond to stakeholders' demands regarding societal needs while optimizing the MNC's economic performance. Table 3 outlines the five levels of CSR management system responsiveness that correspond to the five levels of MNC issue turbulence. This study evaluated four independent variables: (a) MNC issue turbulence, (b) MNC strategy aggressiveness, (c) MNC capability responsiveness, and (d) MNC CSR strategic posture.

Table 3 *CSR MNC Management System Responsiveness Verses MNC Issue Turbulence*

|                                   | Turbulence Level                                                     |                                                                                      |                                                   |                                                     |                                                   |
|-----------------------------------|----------------------------------------------------------------------|--------------------------------------------------------------------------------------|---------------------------------------------------|-----------------------------------------------------|---------------------------------------------------|
|                                   | 1                                                                    | 2                                                                                    | 3                                                 | 4                                                   | 5                                                 |
| Turbulence Characteristics        | Static/Repetitive                                                    | Slowly Changing                                                                      | Rapidly Changing                                  | Discontinuous                                       | Surpriseful                                       |
| Top Management Involvement in CSR | No commitment to address CSR issues<br>Political<br>Public relations | Focuses on risk mitigation and harm avoidance                                        | Creates awareness and understanding of CSR issues | Creates new form of engagement with stakeholders    | Implements CSR change management                  |
| Leadership Skills                 | Political                                                            |  |                                                   |                                                     | Charismatic and transformational                  |
| CSR Team                          | Primary roles and responsibilities                                   | Explores CSR added roles and responsibilities                                        | Plans for new CSR roles and responsibilities      | Forms cross-functional CSR teams within departments | Acts as CSR agents to implement change management |

(table continues)

207 Table 3 (continued)

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| Turbulence Level                                                                     |                                                               |                                                                                    |                                                                           |                                                                                |                                                                                              |
|--------------------------------------------------------------------------------------|---------------------------------------------------------------|------------------------------------------------------------------------------------|---------------------------------------------------------------------------|--------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------|
|                                                                                      | 1                                                             | 2                                                                                  | 3                                                                         | 4                                                                              | 5                                                                                            |
| CSR Policies, Programs, International Standards, and Guidelines                      | Policies, programs and standards are not part of organization |  |                                                                           |                                                                                |                                                                                              |
| Staff Knowledge of CSR Policies, Programs, International standards and/or Guidelines | Knowledge of existing internal policies                       | Some knowledge of CSR policies, programs and/or standards/guidelines               | Moderate knowledge of CSR policies, programs, and/or standards/guidelines | Effective knowledge of CSR policies, programs, and/or standards and guidelines | Expert Knowledge of new CSR policies, programs and international standards and/or Guidelines |
| CSR Risk Propensity                                                                  | Reject                                                        | Accept familiar risks and opportunities                                            | Seek familiar risks And opportunities                                     | Seek unfamiliar risks and opportunities                                        | Seek novel and creative risks and opportunities                                              |

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## 211 Research Model

212 The success of the CSR strategy depends on the internal CSR capabilities of the firm,

213 which are functional, such as research and development, marketing, production, or general

214 management capability. As the environmental turbulence level changes quantitatively and

215 qualitatively, so does the firm's strategy—capability couplings have to change to fit the

216 turbulence level for optimal organizational performance.

The research model reflects MNC strategy “aggressiveness” and MNC capability “responsiveness,” both of which influence the strategic CSR posture of the MNC. The research model describes two gaps, the MNC strategy aggressiveness gap and the MNC capability responsiveness gap. These are defined respectively as the difference between the perceived level of environmental turbulence and the reactive-to-proactive nature of MNC CSR posture to MNC activities. This study hypothesized that as the absolute value of MNC strategy aggressiveness gap decreases, performance of the MNC increases. Similarly, as the absolute value of MNC capability responsiveness gap decreases, performance of the MNC increases. The MNC CSR strategic posture is, then, theorized to have a significant relationship to the social and financial performance of MNC.

Definitions of the independent, intervening, controlled, and dependent variables are based on the research model. MNC issue turbulence is an independent variable, and it is measured to evaluate Hypotheses 1, 2, 3, and 4. MNC strategy aggressiveness and MNC capability responsiveness are independent variables and are measured to evaluate Hypotheses 5 and 6, respectively, where MNC CSR posture acts as the dependent variable in this case of the research study. An MNC’s CSR posture is an independent variable, and it is measured to evaluate Hypotheses 7 and 8, where financial and social performance act as dependent variables.

MNC aggressiveness gap is an intervening variable, and it is measured to evaluate Hypotheses 1 and 2. MNC capability responsiveness gap is an intervening variable, and it is measured to evaluate Hypotheses 3 and 4.

MNC financial performance is a dependent variable, and it is measured to evaluate Hypotheses 1, 3, and 7. MNC social performance is a dependent variable, and it is measured to evaluate Hypotheses 2, 4, and 8. MNC financial performance and MNC social performance are

dependent variables and are measured to evaluate Hypothesis 9, where social performance acts as the independent variable, in this case of the research study. Industry type of business classification, business sector, and activity are control variables, and they are held constant and will not form a part of any hypothesis in this research. These data were collected to support future investigation and research.

This research aimed to answer some fundamental questions regarding the needs of the Palestine region in terms of business development in the 21<sup>st</sup> century. It also aimed to provide a very current picture of why the area is ripe for CSR policy and why and how multinational companies that move into the market there can enact change that will be both good business and good corporate social behavior.

The social, political, and business environment in Palestine is characterized by instability and severely challenged socioeconomic development that influences every facet of MNC strategic behavior, from stakeholder relations to human resources to environmental impacts. The region has seen the frequent, unpredictable, and surprising occurrence of uprisings and blockades that make the business environment complex, constantly changing, and volatile. The level of environmental turbulence in the West Bank/Gaza region is reflected in the complexity of the business environment. Change is often reactive rather than proactive due to the constancy of chaos. Successful, that is, proactive rather than reactive, corporate responsibility strategy requires its integration into MNC's core business strategy. The Research Model is presented in Figure 1, below.

RESEARCH MODEL

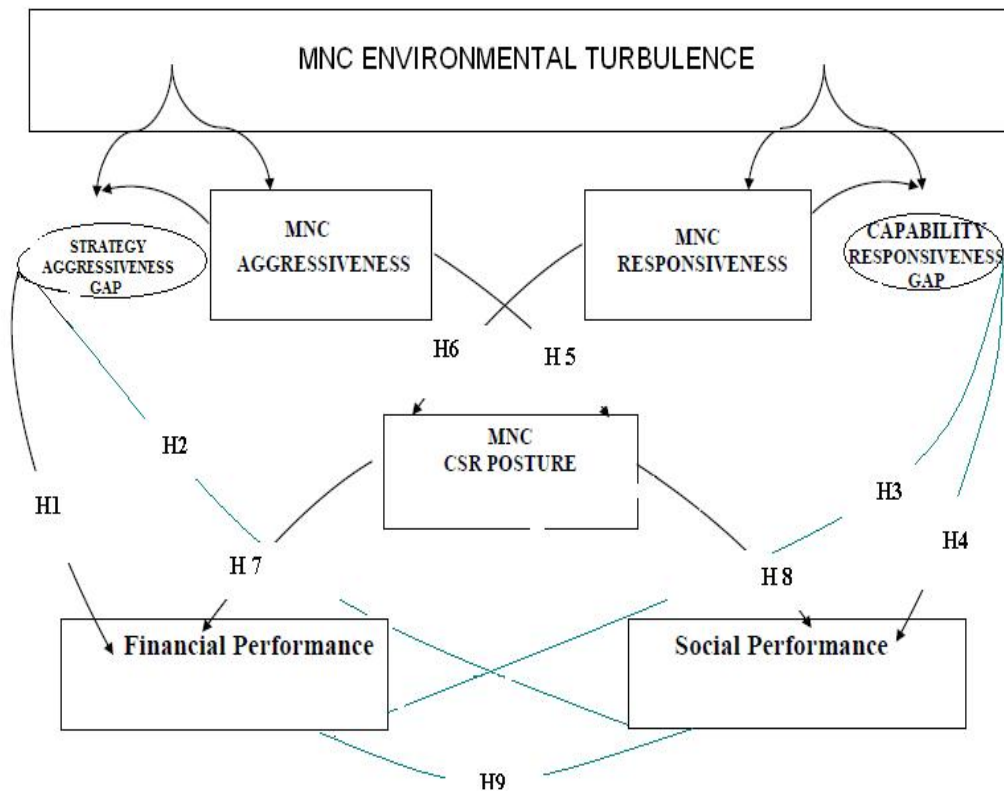


Figure 1. The research model.

Table 4 presents the research questions paired with the research hypotheses, and Table 5 presents a summary of research hypotheses statistical tests.

Table 4 Research Questions and Research Hypotheses

| Research Question                                                                                                       | Research Hypothesis                                                                                                   |
|-------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------|
| <b>Q1.</b><br>What is the relationship between the MNC strategy aggressiveness gap and the MNC's financial performance? | <b>H1.</b><br>There is a reliable relationship between MNC strategy aggressiveness gap and MNC financial performance. |

## **Q2.**

What is the relationship between the MNC strategy aggressiveness gap and the MNC's social performance?

## **Q3.**

What is the relationship between the MNC capability responsiveness gap and the MNC's financial performance?

## **Q4.**

What is the relationship between the MNC capability responsiveness gap and the MNC's social performance?

## **Q5.**

What is the relationship between the MNC's strategy aggressiveness and the MNC's social responsibility (CSR) posture?

## **Q6.**

What is the relationship between the MNC's capability responsiveness and the MNC's social responsibility (CSR) posture?

## **Q7.**

What is the relationship between the MNC's CSR posture and the MNC's financial performance?

## **Q8.**

What is the relationship between the MNC's CSR posture and the MNC's social performance?

## **Q9.**

What is the relationship between the MNC's financial performance and the MNC's social performance?

## **H2.**

There is a reliable relationship between MNC strategy aggressiveness gap and MNC social performance.

## **H3.**

There is a reliable relationship between MNC capability responsiveness gap and MNC financial performance.

## **H4.**

There is a reliable relationship between MNC capability responsiveness gap and MNC social performance.

## **H5.**

There is a reliable relationship between MNC's strategy aggressiveness and the MNC's social responsibility (CSR) posture.

## **H6.**

There is a reliable relationship between MNC capability responsiveness and MNC social responsibility (CSR) posture.

## **H7.**

There is a reliable relationship between MNC CSR posture and MNC financial performance.

## **H8.**

There is a reliable relationship between MNC CSR posture and MNC social performance.

## **H9.**

There is a reliable relationship between MNC financial performance and MNC social performance.

269 Table 5 *Summary of Statistical Tests*

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| Research Hypothesis                                                                                                           | Null Hypothesis                                                                                             | Statistical Test                     |
|-------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------|--------------------------------------|
| <b>H1</b> There is a reliable relationship between MNC strategy aggressiveness gap and MNC financial performance.             | There is no relationship between MNC strategy aggressiveness gap and MNC financial performance.             | Correlation (Spearman's <i>rho</i> ) |
| <b>H2</b> There is a reliable relationship between MNC strategy aggressiveness gap and MNC social performance                 | There is no relationship between MNC strategy aggressiveness gap and MNC social performance                 | Correlation (Spearman's <i>rho</i> ) |
| <b>H3</b> There is a reliable relationship between MNC capability responsiveness gap and MNC financial performance            | There is no relationship between MNC capability responsiveness gap and MNC financial performance.           | Correlation (Spearman's <i>rho</i> ) |
| <b>H4</b> There is a reliable relationship between MNC capability responsiveness gap and MNC social performance.              | There is no relationship between MNC capability responsiveness gap and MNC social performance.              | Correlation (Spearman's <i>rho</i> ) |
| <b>H5</b> There is a reliable relationship between MNC strategy aggressiveness and MNC social responsibility (CSR) posture.   | There is no relationship between MNC strategy aggressiveness and MNC social responsibility (CSR) posture.   | Correlation (Spearman's <i>rho</i> ) |
| <b>H6</b> There is a reliable relationship between MNC capability responsiveness and MNC social responsibility (CSR) posture. | There is no relationship between MNC capability responsiveness and MNC social responsibility (CSR) posture. | Correlation (Spearman's <i>rho</i> ) |
| <b>H7</b> There is a reliable relationship between MNC CSR posture and MNC financial performance.                             | There is no relationship between MNC CSR posture and MNC financial performance.                             | Correlation (Spearman's <i>rho</i> ) |
| <b>H8</b> There is a reliable relationship between MNC CSR posture and MNC social performance.                                | There is no relationship between MNC CSR posture and MNC social performance.                                | Correlation (Spearman's <i>rho</i> ) |
| <b>H9</b> There is a reliable relationship between MNC financial performance and MNC social performance.                      | There is no relationship between MNC financial performance and MNC social performance.                      | Correlation (Spearman's <i>rho</i> ) |

#### 4. Data

The target population for this research included multinational corporations (MNCs) and domestic Small and Medium Enterprises (SMEs) that had operations in or were contemplating undertaking FDI investment in Palestine. The intended survey respondents must have had the knowledge and expertise regarding the political and the socioeconomic challenges in the Middle East, mainly of a conflict-prone region such as Palestine. Two multiple sets of samples were downloaded into a Microsoft Excel spreadsheet from two Web site sources: the Palestinian Trade Center (Pal Trade) and Palestine Stock Exchange (PSE), respectively. Pal Trade is a national trade development organization that has 339 memberships for Palestinian leading businesses of various industry sectors in the West Bank and Gaza. There were 43 companies listed on the Palestine Stock Exchange in various industries, and they were actively traded on the PSE market. These companies were mainly located in the West Bank and Gaza. Company names, contact persons, industry sectors, e-mail addresses, and telephone and fax numbers were tabulated. Companies that responded to the survey instrument were industries in the following: (a) manufacturing, (b) communication and advertising, (c) IT and networking, (d) real estate, (e) construction, (f) financial services and banking, (g) telecommunication, (h) retail, and (I) business consulting firms.

#### Data Analysis

The survey questionnaire was sent to 316 companies that operated at the time of the survey taken in Palestine. There were 15 companies that responded to the survey. One company missed a major part of the questionnaire pertaining to financial and social performance and was removed from the sample. Another company in the technology sector was eliminated from the sample because it did not insert its financial performance. In addition, two more companies

declined to participate in the survey. The research study was analyzed based on 11 returned surveys.

Reliability measurements were undertaken for the independent and dependent variables within the study using Cronbach's alpha. The reliability and descriptive statistics for these variables are presented in Table 6.

Table 6 *Variable Reliability and Descriptive Statistics*

| Variable                       | Alpha | Scale   | Mean | Range     | SD    |
|--------------------------------|-------|---------|------|-----------|-------|
| MNC Environmental Turbulence   | .818  | 1–5     | 3.17 | 2.13–4.50 | .714  |
| MNC Strategy Aggressiveness    | .489  | 1–5     | 3.23 | 2.20–4.00 | .598  |
| MNC Capability Responsiveness  | .821  | 1–5     | 3.66 | 2.77–4.38 | .559  |
| MNC CSR Posture                | .641  | 1–5     | 3.26 | 2.60–4.60 | .567  |
| MNC Aggressiveness Gap         | --    | 0–4     | .55  | .03–1.47  | .489  |
| MNC Responsiveness Gap         | --    | 0–4     | .61  | .02–1.79  | .549  |
| Social Performance             | .554  | 1–5     | 3.41 | 2.45–4.17 | .526  |
| Financial Performance (as ROE) | --    | percent | 8.12 | -10–+27   | 12.38 |

Note.  $N = 11$ .

## Research Variables

This research investigated the independent, intervening, and dependent variables that comprised the data under analysis in the study. The issues under investigation were MNC issue turbulence, MNC strategy aggressiveness, MNC capability responsiveness, and MNC

corporate social responsibility (CSR) posture. The survey included the intervening variables of the MNC strategy aggressiveness gap and the MNC capability responsiveness gap. The dependent variables were first, financial performance correlated with strategy aggressiveness gap, and second, social performance correlated with capability responsiveness gap.

## Independent Variables

### MNC Issue Turbulence

Calculation:  $(Q1 + Q2 + Q3 + Q4 + Q5 + Q6 + Q7 + Q8) / 8$

Questions 1 through 8 measured MNC issue turbulence in the survey. Questions 1 through 6 measured the perception of rate of change in the business environment in Palestine. Question 7 measured the predictability of change in the economic, political, and security closure policies relative to foreign direct investment activities. Question 8 measured the complexity of the host country's regulations and financial policies that affected the firm's behavior.

The MNC issue turbulence was calculated through averaging the scores on a Likert scale of 1-5 for a series of questions: where 1 means changes are rare and we don't worry about them; 2 means when changes come, we usually react easily; 3 means when changes come, we usually react in time; 4 means when changes come, we are usually trying to catch up; and 5 means changes are extremely fast and chaotic, and we struggle to keep up. Mainly, turbulence in the business environment requires new strategic responses, and management capability must be developed to assure the firm's successful operations (Ansoff & McDonnell, 1990).

### MNC Strategy Aggressiveness

Calculation:  $(Q9 + Q10 + Q11 + Q12 + Q13) / 5$

Questions 9 through 13 measured MNC strategy aggressiveness. Question 9 was designed to measure the company's approach to change on issues pertaining to corporate social responsibility (CSR). Question 10 was designed to measure the importance of CSR as an integral part of the firm's core business strategy. Question 11 measured the corporate social responsibility (CSR) mindset and goals of the organization. Question 12 measured the firm's receptivity to new technologies for development of high quality and safe products. Question 13 measured MNCs' approaches or their interaction with stakeholders.

Survey respondents rated each aspect of MNC strategy aggressiveness as they corresponded to five choices for each question. The scores for possible answers for each question ranged from 1 to 5. If a question was not answered, the score was based on the average of the remaining questions.

## **MNC Capability Responsiveness**

Calculations:  $(Q14 + Q15 + Q16 + Q17 + Q18 + Q19 + Q20 + Q21 + Q22 + Q23 + Q24 + Q25 + Q26) / 13$

Questions 14 through 26 measured MNC capability responsiveness. Question 14 measured top management's involvement in corporate social responsibility; this question was based on five choices for a respondent to answer, scored from 1 to 5. Questions 15 and 16 measured the extent to which CSR policies, standards, and programs were disseminated to stakeholders and the overall management-staff's level of knowledge of international CSR standards, guidelines, and initiatives. Questions 17 through 26 measured 10 elements of importance to the firm's decision-making regarding investment in Palestine.

The scores for possible answers for these questions ranged from 1 to 5. Unanswered questions were not included in the arithmetic mean calculation for this variable.

## **MNC Corporate Social Responsibility (CSR) Posture**

$$\text{Calculations: } (Q27 + Q28 + Q29 + Q30 + Q31 + Q32 + Q33 + Q34 + Q35 + Q36) / 10$$

Questions 27 through 36 measured MNC corporate social responsibility (CSR) posture.

These questions measured the company's CSR posture as follows:

1. Question 27 measured the managerial staff's CSR focus.
2. Question 28 measured appropriate investment modes of entry into Palestine.
3. Question 29 measured strategy of the firm's operations to include the whole business and its supply chain.
4. Questions 30 through 36 measured the importance of cooperation by stakeholders operating in Palestine for success in the marketplace.

Question 27, 28, and 29 were based on five choices, and the scores for possible answers for each question ranged from 1 to 5. Question 28 included a box for respondents to answer the questions with "Other," which further allowed them to briefly state other answers than those provided. Questions 30 through 36 allowed the respondent to rate the importance of stakeholder engagement. Questions 27 through 36 were calculated through averaging the possible scores for each question. The value for MNC CSR posture was calculated as follows for each respondent:

$$(Q27 + Q28 + \dots + Q35 + Q36) / 10.$$

## **Intervening Variables**

### **MNC Strategy Aggressiveness Gap**

$$\text{Calculation: } | \text{MNC issue turbulence} - \text{MNC strategy aggressiveness} |$$

The MNC strategy aggressiveness gap was an intervening variable with scores ranging from 0 to 4. It measured the alignment between MNC environmental turbulence and strategy aggressiveness. The MNC strategy aggressiveness gap was calculated by taking the absolute value of the difference between MNC strategy aggressiveness and MNC issue turbulence for each respondent.

## **MNC Capability Responsiveness Gap**

Calculation:  $| \text{MNC issue turbulence} - \text{MNC capability responsiveness} |$

The MNC capability responsiveness gap was an intervening variable with scores ranging from 0 to 4. It measured the alignment between MNC environmental turbulence and management responsiveness. The MNC capability responsiveness gap was calculated by taking the absolute value of the difference between MNC capability responsiveness and MNC issue turbulence for each respondent.

## **Dependent Variables**

### **MNC Financial Performance**

Calculation: (Q37)

Question 37 measured the MNC's financial performance and the average firm's return on equity (ROE) over the last 3 years' percentage of MNC operations (ratio of income to shareholder's equity). The respondents filled out the ROE percentage in the box to input whether it was positive or negative ROE.

### **MNC Social Performance**

Calculations:  $(Q38 + Q39 + Q40 + Q41 + Q42 + Q43 + Q44 + Q45 + Q46 + Q47 + Q48 + Q49 + Q50 + Q51 + Q52 + Q53 + Q54 + Q55) / 18$

Questions 38 through 45 measured important elements of MNC social performance that contributed to the firm's stakeholders. These measured the firm's social performance, as evidenced by implementation of beneficial programs to the firm's employees. Questions 46 through 55 measured the important elements and their contributions to socioeconomic development in Palestine. Responses were based on scores ranging from 1 to 5. The value of MNC social performance was calculated by averaging these scores for each respondent. Unanswered questions and questions marked N/A were not included in the arithmetic mean calculation for this variable.

## **MNC Overall Performance**

The overall performance of the MNC desired result was that society at large is lifted in a lasting and meaningful way and that the company is financially successful. The "overall performance," then, is a cycle of successful policies in which all stakeholders are invested.

## **Limitations**

One of the limitations of this research study was that a limited number of multinational companies operated in the West Bank and Gaza territory. Palestine, including East Jerusalem, is considered a small and resource-poor economy. The private sector establishments constituted 90.7% of total businesses. These were largely family-based, small-sized, and low-capacity businesses. Consequently, CSR was new to Palestine, but MNCs doing business there were importing CSR policies that were well-established in developing countries. Domestic local companies and MNCs operating in Palestine were sought for this research study. Therefore, the number of companies that responded were limited. Another limitation for this research study was the possibility of the population being conditioned to a high level of turbulence that might have

produced bias from the respondents. The environment in Palestine has been shaped by conflict, violence, and continued unrest for many decades. The long-term social and culture norms of acceptance of high turbulence levels might have shifted the business environment to acceptance of a moderate high turbulence level.

## 5. Research Findings

### Descriptive Statistics

The study looked at integrating CSR into firms' core business as part of MNCs' strategic CSR posture to optimize the firms' financial and social profitability based on Strategic Success Paradigm (SSP) framework developed by Ansoff and McDonnell (1990).

The reactive to proactive nature of the firm's CSR management systems strategies was evaluated through the measured variables of MNC environmental turbulence, MNC strategy aggressiveness, and MNC capability responsiveness, and MNC CSR posture, financial and social performance of companies operating or contemplating to engage in foreign direct investment (FDI) in Palestine. Two gap variables, the MNC aggressiveness gap and MNC responsiveness gap, were calculated from the data for each company. These variables represented the difference between aggressiveness or responsiveness and MNC environmental turbulence, respectively. A reactive to proactive Likert scale ranging from 1 to 5 was used to measure and evaluate all the variables in this study, excepting the two gap variables, which were calculated as an absolute value on a scale of 0 to 4. Table 7 presents the descriptive statistics of the study's research variables. The relationships among these variables were evaluated in SPSS, utilizing Spearman's rho statistical analysis to compare the variables. All study results were tested at a 5% significance level for a 2-tailed distribution.

*Table 7 Descriptive Statistics of the Research Variables*

| Variable                      | Scale   | Mean | Range      | <i>SD</i> |
|-------------------------------|---------|------|------------|-----------|
| MNC Environmental Turbulence  | 1–5     | 3.17 | 2.13–4.50  | .714      |
| MNC Strategy Aggressiveness   | 1–5     | 3.23 | 2.20–4.00  | .598      |
| MNC Capability Responsiveness | 1–5     | 3.66 | 2.77–4.38  | .559      |
| MNC CSR Posture               | 1–5     | 3.26 | 2.60–4.60  | .567      |
| MNC Aggressiveness Gap        | 0–4     | .55  | .03–1.47   | .489      |
| MNC Responsiveness Gap        | 0–4     | .61  | .02–1.79   | .549      |
| Social Performance            | 1–5     | 3.41 | 2.45–4.17  | .526      |
| Financial Performance         | percent | 8.12 | -.10–+27.0 | 12.38     |

*Note.*  $N = 11$ .

## Empirical Findings

The statistical analyses of the hypotheses and additional findings for this research were conducted with Spearman's  $\rho$  ( $r$ ) correlation. Spearman's  $\rho$  ( $r$ ) is a non-parametric measure of correlation. It assesses how well a monotonic function could describe the relationship between two variables, without the assumption of frequency distribution of the variables (Laerd Statistics, 2011). The statistical outcomes of this study are presented in Table 8.

Table 8

## Summary of Statistical Results

| Hypotheses                                          | Statistical Test  | ( $\rho$ ) Value | $p$ Value | Supported     |
|-----------------------------------------------------|-------------------|------------------|-----------|---------------|
| H1 Relationship between MNC Strategy Aggressiveness | Spearman's $\rho$ | .137             | .689      | Not Supported |

|    |                                                                                                          |                       |      |      |               |
|----|----------------------------------------------------------------------------------------------------------|-----------------------|------|------|---------------|
|    | Gap and MNC financial performance                                                                        |                       |      |      |               |
| H2 | Relationship between MNC Strategy Aggressiveness Gap and MNC social performance                          | Spearman's <i>rho</i> | .191 | .574 | Not Supported |
| H3 | Relationship between MNC Capability Responsiveness Gap and MNC financial performance                     | Spearman's <i>rho</i> | .534 | .09  | Not Supported |
| H4 | Relationship between MNC Capability Responsiveness Gap and MNC social performance                        | Spearman's <i>rho</i> | .424 | .194 | Not Supported |
| H5 | Relationship between MNC strategy aggressiveness and MNC corporate social responsibility (CSR) posture   | Spearman's <i>rho</i> | .385 | .243 | Not Supported |
| H6 | Relationship between MNC capability responsiveness and MNC corporate social responsibility (CSR) posture | Spearman's <i>rho</i> | .642 | .033 | Supported     |
| H7 | Relationship between MNC CSR posture and MNC financial performance                                       | Spearman's <i>rho</i> | .735 | .01  | Supported     |

(table continues)

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| Hypotheses                                                                   | Statistical Test      | ( <i>rho</i> ) Value | <i>p</i> Value | Supported |
|------------------------------------------------------------------------------|-----------------------|----------------------|----------------|-----------|
| H8 Relationship between MNC CSR posture and MNC social performance           | Spearman's <i>rho</i> | .642                 | .033           | Supported |
| H9 Relationship between MNC financial performance and MNC social performance | Spearman's <i>rho</i> | .665                 | .026           | Supported |

Note.  $N = 11$ .

Spearman's *rho* revealed no statistical correlation for Hypotheses 1, 2, 3, 4, and 5 for a significance level less than .05. Spearman's *rho* revealed a statistically reliable relationship for Hypotheses 6, 7, 8, and 9 and was supported at a significance level of less than 0.05.

Hypothesis 6, the relationship between MNC capability responsiveness and MNC corporate social responsibility (CSR) posture, was supported ( $p < 0.033$ ), indicating that those firms that scored high on capability responsiveness tended to score high on CSR posture. As the firm's managerial and organizational system had the ability to respond to CSR issues in the business environment, the firm's CSR posture became proactive and had the ability to build competence and implement CSR change management. Hypotheses 7 and 8 were statistically supported, respectively ( $p < .010$  and  $p < 0.033$ ), which indicated that relationships existed between an MNC CSR posture and its financial and social performance. Firms that scored high on MNC CSR posture tended to score high and increase their financial and social profitability. As the firm's CSR posture became proactive—to build a responsible behavior, implement CSR change management, and engage with stakeholders to respond to societal needs—the firm's financial and social profitability increased.

Hypothesis 9 showed a statistically significant relationship ( $p < 0.026$ ) between financial and social performance. Firms that proactively implemented CSR posture and engaged with pro-social activities to respond to societal needs and scored high on social performance tended to score high on financial performance. This outcome indicated that as firms implemented successful CSR policies in which all stakeholders were invested, the company would be financially successful.

The research findings in Table 9 also showed a significant relationship with development of viable national economy ( $r [11] = .781, p = .005$ ), a significant relationship with enhancing government institutions ( $r [11] = .741, p = .009$ ), and a significant relationship with supportive investment climate ( $r [11] = .740, p = .009$ ). It was found that MNC strategy aggressiveness had a significant relationship with CSR core business strategy incorporation ( $r [11] = .831, p = .002$ ), a significant positive relationship with companies' approach to interaction with stakeholders ( $r [11] = .760, p = .007$ ), a significant positive relationship with MNC managerial skills ( $r [11] = .960, p = .00$ ), and a significant positive relationship with MNC leadership skills ( $r [11] = .819, p = .002$ ). It was found that environmental turbulence had a significant relationship with political stability ( $r [11] = .937, p = .00$ ). Those significant relationships indicated that companies that scored high on these variables tended to score high for a supportive business environment and a proactive CSR posture for firms operating in Palestine. For instance, there would be the need for a proactive posture to integrate strategic CSR in a firm's core business strategy, the need for interaction with stakeholders to define societal needs, and the need for managerial and leadership skills to implement a new change management and institutionalize CSR embedment in the firm's business operations for optimal financial and social performance.

500 Table 9 Additional Hypotheses Relative Questionnaire for Socioeconomic in Palestine  
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| Additional Hypotheses<br>Relative Questionnaire for<br>Socioeconomic in Palestine                          | Statistical<br>Test      | (rho) Value | p Value | Supported |
|------------------------------------------------------------------------------------------------------------|--------------------------|-------------|---------|-----------|
| Relationship between MNC<br>Environmental Turbulence<br>and Viable National<br>Economy                     | Spearman's<br><i>rho</i> | .781        | .005    | Supported |
| Relationship between MNC<br>Environmental Turbulence<br>and Enhancing Government<br>Institutions           | Spearman's<br><i>rho</i> | .741        | .009    | Supported |
| Relationship between MNC<br>Environmental Turbulence<br>and Supportive Investment<br>Climate               | Spearman's<br><i>rho</i> | 0.740       | .009    | Supported |
| Relationship between MNC<br>Environmental Turbulence<br>and Political Stability                            | Spearman's<br><i>rho</i> | .937        | .000    | Supported |
| Relationship between MNC<br>strategy aggressiveness and<br>CSR Core Business Strategy<br>and incorporation | Spearman's<br><i>rho</i> | .831        | .002    | Supported |
| Relationship between MNC<br>Environmental Turbulence<br>and MNC Leadership Skills                          | Spearman's<br><i>rho</i> | .819        | .002    | Supported |
| Relationship between MNC<br>Environmental Turbulence<br>and MNC Managerial Skills                          | Spearman's<br><i>rho</i> | .960        | .000    | Supported |
| Relationship between MNC<br>Capability Responsiveness<br>and Sustainable Job Creation                      | Spearman's<br><i>rho</i> | .742        | .012    | Supported |
| Relationship between<br>Supporting Peace Building<br>and Cheap Labor                                       | Spearman's<br><i>rho</i> | -.824       | 0.02    | Supported |

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Palestine is characterized by, and encumbered by, a small market and an uncertain political and business environment, which created multifaceted threats, surprising trends, and bountiful opportunities. The level of environmental turbulence in the West Bank/Gaza region was reflected in the complexity of its business environment. According to the World Bank (2009a), the political and the socioeconomic environments in Palestine had seen frequent, unpredictable, and surprising upheavals. Firms operating in Palestine should develop and install an environmental surveillance and capability analysis management system to detect discontinuities in the market place and proactively respond to societal challenges. The drivers for CSR pertaining to socioeconomic priorities and political stability ought to be implemented to achieve sustainable development in Palestine. MNC engagement with stakeholders could take the leadership in defining the societal needs pertinent to the location in Palestine through a social agenda as part of the core business strategy.

The strategic and systematic integration of CSR into the company's strategy would allow companies in Palestine to respond to societal needs while satisfying company and stakeholder financial and societal goals. According to Ansoff (1984), the optimal performance of an organization would require MNC strategy aggressiveness and organizational capability responsiveness to match the level of environmental turbulence in which the firm operated. Realizing that there were different types of environments, different strategy-capability couplings were required for successful operation in Palestine.

The additional findings of this study examined the relationships between MNC environmental turbulence and various factors that affect the business environment in Palestine for successful operations. The external political, socioeconomic, and legal environment was extensively researched and concluded that a supportive investment environment for companies

seeking foreign direct investment (FDI) in Palestine needed a transparent, stable, and predictable investment climate for successful operations.

## 6. Conclusion

The study examined the relationships among MNCs' environmental turbulence, MNC strategy aggressiveness, MNC capability responsiveness, MNC corporate social responsibility (CSR) posture, and the financial and social performance of MNCs operating in Palestine. This study hypothesized that organizational performance was improved when MNC strategy aggressiveness and MNC capability responsiveness were aligned with MNC issue turbulence level. The sample sizes, means, standard deviations, and reliability outcome pertaining to the variables were presented in Table 7 and 8. Spearman's *rho* revealed no statistical correlation for Hypotheses 1, 2, 3, 4, and 5 for a significance level less than .05. Spearman's *rho* revealed a statistically reliable relationship for Hypotheses 6, 7, 8, and 9 and was supported at a significance level of less than 0.05.

According to Ansoff and McDonnell (1990), levels of strategic aggressiveness and capability responsiveness appropriate to the level of environmental turbulence were required for business success. Basically, embedment of CSR management system in the companies' operations would require the capabilities of firms' top management to craft CSR initiatives and respond to socioeconomic challenges facing Palestine. This would (a) generate employment to alleviate poverty, (b) support capacity building, (c) support health-care provisions, (d) promote infrastructure development, (e) help peace-building, (f) help to rebuild weak government institutions, (g) institutionalize political reforms, and (h) preserve human rights, as well as (i) challenge governance gaps regarding social services and anti-corruption issues.

According to Ansoff and McDonnell (1990), the strategic posture of the firm was derived through diagnosing the future levels of environmental turbulence and the desired strategic aggressiveness and capability responsiveness of the firm based on the gap analysis approach. The closure of these gaps was the basis for implementing change management and further establishing the strategic aggressiveness and general management responsiveness required for optimum financial and social performance. The MNC CSR posture showed significant relationships with NGOs, civic and local government, and company interaction with stakeholders and NFP organizations. Mainly, MNC CSR posture showed a positive relationship with sustainable job creation for firms operating in Palestine.

According to Porter and Kramer (2011), the most important thing a corporation could do was to contribute to a prosperous economy because with that contribution, the corporation could change the state of affairs with regard to social welfare. Based on the findings of this research study, incorporating strategic CSR into a firm's core business would improve the organization's financial and social performance.

In addition to these findings, multinational companies' engagement and collaboration with stakeholders, government, civic agencies, NGOs, and NFP organizations showed positive and significant relationships with MNC CSR posture that could lead to sustainable development. This was consistent with Kidder's (2006) statement that a carefully crafted coalition of international businesses, NGOs, and prominent businesses could be organized to improve economic conditions in Palestine.

This study contributes to the field of strategic management by empirically testing and validating hypotheses regarding the relationships between environmental turbulence, MNC strategy aggressiveness, and MNC capability responsiveness for MNCs operating in a conflict-prone zone such as Palestine. The study provides researchers and professionals with tools for

aligning the business environment with the political environment and for maximizing stakeholder legitimacy strategy and CSR for optimal financial and social performance.

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