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# Essays on the Effectiveness of Multinational Enterprises in Boosting Corporate Social Responsibility in Host Business Environment

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# ESSAYS ON THE EFFECTIVNESS OF MULTINATIONAL ENTERPRISES IN BOOSTING CORPORATE SOCIAL RESPONSIBILITY IN HOST BUSINESS ENVIRONMENT

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To: Acting Dean Jose Aldrich
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This dissertation, written by Ying Liu, and entitled Essays on the Effectiveness of Multinational Enterprises in Boosting Corporate Social Responsibility in Host Business Environment, having been approved in respect to style and intellectual content, is referred to you for judgment.

I have read this dissertation and recommend that it be approved.

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ABSTRACT OF THE DISSERTATION

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This dissertation focuses on the influences of the presence of multinational enterprises (MNEs) on the overall level of corporate social responsibility (CSR) in host countries or regions through the joint effects of the presence of MNEs and the local institutional environment. It resides in the intersection of international business (IB) literature and corporate social responsibility (CSR) literature with the purpose of shedding new light on both literatures by combining and expanding both literatures. There are three essays.

The first essay is a conceptual study to comprehensively examine the antecedents of CSR activities, emphasizing the factors of the presence of MNEs and the increased globalization (i.e., the increased interconnections and interdependence among individuals and countries). We propose an integrated theoretical model based on a combined theoretical lens of institutional theory, stakeholder theory and social cognitive theory. We argue that the antecedents of CSR can be framed at multiple levels (i.e., societal level, organizational level and individual level), and firms not only reactively respond to social pressures but also proactively initiate CSR practices.

In order to further emphasize the effects of the presence of MNEs, two empirical studies (i.e., the second essay and the third essay) are conducted. The second essay examines the influence of the variant presence of MNEs on host countries' institutions and the joint influence of these two factors on host countries' overall CSR. The findings largely support our arguments that the presence of foreign MNEs positively influences overall CSR across host countries directly and indirectly via national level institutions. The third essay further exemplifies the effect of the heterogeneous presence of MNEs on local CSR across regions within an emerging economy, namely China, partially through the mediation effects of Chinese regional institutions. The findings largely support our arguments that the presence of foreign MNEs positively influences indigenous firms' involvement in CSR-related activities directly and indirectly via regional institutions. The contributions, limitations and implications are discussed.

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# I. INTRODUCTION

Over the years, the importance and significance of the concept of corporate social responsibility (CSR) has continued increasing (Carroll & Shabana, 2010). CSR has been defined in a variety of ways without consensus (Jones, 1999). In this dissertation, we follow McWilliams and Siegel (2001) to define CSR as firms' discretionary activities that go beyond compliance and enhance social welfare because many corporate activities that further social welfare, such as medical leave and equal employment opportunity, are legally mandated (Barnett, 2007). Scholars have long debated whether firms should conduct CSR activities (i.e., CSR opponents such as Friedman (1962) and Jensen (2002) versus CSR advocates such as Bowen (1953) and Jones (1995)). Despite the long debate, more and more firms have initiated CSR activities to demonstrate their advocacies of CSR toward the community and society (Carroll, 1991; Margolis & Walsh, 2003), attempting to posit ethical consideration at the center of their organizational culture and decision makings (Maon, Lindgreen & Swaen, 2010) and considering CSR critical strategic resources that can help improve firms' bottom line performance (McWilliams et al., 2006) and gain legitimacy in host business environment (Gardberg & Formbrun, 2006; Zhao, Park & Zhou, 2014).

The literature (e.g., Aguilera, Rupp, Williams & Ganapathi, 2007; Freeman, 1984; Friedman, 1970; Jones, 1995) has presented some studies that examine the antecedents or determinants of firms' CSR activities. Most of these studies take a relatively narrow view, such as an instrumental view that views firms' actions as self-interest driven behaviors, and focus on one level of analysis such as an organizational level or individual level. Moreover, these existing studies usually emphasize what firms should do while they largely ignore what firms can do, and emphasize firms' reactive responses while focusing less on firms' proactive actions. Since most existing studies are based on one single theoretical lens such as institutional theory, stakeholder theory or agency theory, few comprehensive models have been presented in the literature. However, integrative frameworks are needed to provide a more comprehensive view on CSR development (Swanson, 1999). In addition, frameworks that focus on the antecedents and diffusion of CSR in developing countries are rare. Therefore, in the first essay, building on an integrated theoretical lens of institutional theory, stakeholder theory and social cognitive theory, we attempt to provide a comprehensive framework to illustrate the antecedents of CSR, from the perspective of the *institutionalization* (i.e., a process of how an institution is generated, changed and reproduced (Barley & Tolbert, 1997)) of CSR with an emphasis on the CSR development in developing countries. In this theoretical framework, we highlight two antecedents, namely the presence of MNEs and the increased globalization (i.e., increased international embeddedness and interdependence among countries).

In order to further highlight the effects of the presence of MNEs in the *institutionalization* and diffusion of CSR in host business environments, especially in developing countries, we conducted two empirical studies to provide evidence at a country level and at an intra-country level respectively. In the second essay, we theoretically build on international business (IB) theories and institutional theory. We first argue that MNEs are embedded in complex institutional environments (i.e., institutions in home and host business environments at both country and intra-country levels), and face liability of foreignness (LOF), meaning costs caused by the unfamiliarity of the host business environment (i.e., cultural, political, and economic differences, and the need for coordination across geographic distance, among other factors) (Zaheer, 1995: 341). As one of the coping strategies, MNEs need to act in a more socially responsible manner than other local firms in regard to CSR activities to gain legitimacy. We second argue that MNEs' overall *superior* CSR practices would directly and indirectly influence indigenous firms' engagement in CSR activities through institutions and indigenous firms' isomorphic processes (i.e., the adoption of business practices that have been taken by other relevant organizations (Zuker, 1987)), which finally results in overall improvement in terms of CSR in host countries. The results show that the presence of foreign MNEs in a host country does have positive effects on its overall involvement in CSR activities through the partial mediation effects of three dimensions of a host country's institutions, namely legal and regulatory framework, financial system and national culture. We did not find that the institutional dimension of education and labor system has significant influences. In the data analysis, we controlled the category of a focal country (i.e., a developed county or a developing country). The results show that the above positive relationship is more likely to happen in a developing country.

In the third essay we further exemplify our arguments and the findings of essay 2 by setting the research context as a developing country, namely China. Specifically, in this study, we examine the effects of the presence of MNEs in boosting overall CSR at a regional level (i.e., a provincial level) within China. We take a similar theoretical lens as essay 2, but we examine how the presence of foreign MNEs influences China's provincial institutions and how these two factors influence indigenous firms' involvement in CSR-related behaviors in a province. The results largely support our arguments that the presence of foreign MNEs in a province is positively related to the province's indigenous firms' overall involvement in CSR-related activities through the partial mediation effects of the province's CSR-related institutions.

In sum, this dissertation, including one conceptual study and two empirical studies, attempts to combine the CSR literature and the IB literature, and is among the very first few studies that highlight the effects of the presence of MNEs in boosting CSR in host business environments, especially in developing countries. This dissertation is anticipated to advance scholarly and practical understanding of the role of MNEs in the process of CSR diffusion. MNEs have been doctrinally or traditionally considered solely profit-oriented in host business environments. The findings of this dissertation have provided evidence that MNEs may have new images as social welfare enhancement oriented if MNEs are encouraged or stimulated to engage in CSR activities. Due to MNEs' inherent advantages of being geographically distributed, their positive effects may be spread across countries, which then contribute to overall enhancement of social welfare globally. Therefore, the findings of this dissertation then leave scholars, policy makers and all other social welfare advocates a critical question, namely how to enhance MNEs' positive effects in this regard. The findings also leave scholars and policy makers the other critical questions, namely how to attract those MNEs with exceptional track records of CSR activities and how to facilitate the diffusion of the positive effects that those MNEs may introduce in a host business environment (e.g., a country or regions within a country). Indeed, by attracting those well-behaved MNEs, we mean that not all MNEs behave in a positive way in terms of CSR and there are many negative examples (e.g., GAP does not show strong commitment to protecting workers' health and safety in Bangladesh), leaving scholars and policy makers the important question – how to effectively and only attract those well-behaved MNEs, and how to facilitate the diffusion of the positive influences that those MNEs may bring in. This dissertation provided evidence of the effectiveness that MNEs may in general have as the first step along this research direction, and we leave the other related questions for near future research.

# II. ESSAY 1: AN INTEGRATED THEORETICAL MODEL TOWARD THE ANTECEDENTS OF CORPORATE SOCIAL RESPONSIBILITY IN DEVELOPING COUNTRIES

## Introduction

Over the years, the importance and significance of the concept of CSR has continued increasing (Carroll & Shabana, 2010), and in the business literature CSR has become a prevalent topic. CSR has been defined in a variety of ways without consensus (Jones, 1999). Carroll (1979: 500) defined CSR as firms' *economic, legal, ethical, and discretionary* responsibilities toward society. Frederick (1986: 4) contended that "The fundamental idea of 'corporate social responsibility' is that business corporations have an obligation to work for social betterment". Wood (1991: 695) stated that "The basic idea of corporate social responsibility is that business and society are interwoven rather than distinct entities; therefore, society has certain expectations for appropriate business behavior and outcomes." In this study, we follow McWilliams and Siegel's (2001) definition that CSR means firms' discretionary decision makings that are beyond compliance and good for social welfare.

Despite the long debate among scholars (i.e., CSR opponents represented by Friedman (1962) and Jensen (2002) and CSR advocators represented by Bowen (1953) and Jones (1995)) about whether firms should be responsible for social issues, management scholarship has recently seen a substantial move toward considering CSR as critical strategic resources that can help improve firms' bottom line performance (McWilliams et al., 2006) and gain legitimacy in host business environments (Gardberg & Formbrun, 2006; Zhao, Park & Zhou, 2014). In parallel, an increasing number of firms have taken CSR initiatives to demonstrate their advocacies of their economic, legal, ethical and discretionary responsibilities toward the community and society (Carroll, 1991; Margolis & Walsh, 2003), and attempted to posit ethical consideration at the core of their organizational culture and decision makings (Maon, Lindgreen & Swaen, 2010).

The literature (e.g., Aguilera, Rupp, Williams & Ganapathi, 2007; Freeman, 1984; Friedman, 1970; Jones, 1995) has presented both conceptual and empirical studies that examine the antecedents or determinants of firms' CSR activities. Many of these studies took an instrumental view (i.e., view firms' actions as self-interest driven) and usually these studies analyze the antecedents at one level of analysis (i.e., an organizational level or individual level) from a relatively narrow angle based on one single theoretical lens (e.g., institutional theory, stakeholder theory, or agency theory). Moreover, existing studies usually emphasize what a firm should do with less focus on what a firm can do (Swanson, 1999), and emphasize firms' reactive responses while focusing less on firms' proactive actions. Therefore, although CSR is often considered strategically essential to organizations, few comprehensive models have been presented in the literature. Yet, integrated frameworks are needed to provide a more comprehensive view on CSR development (Swanson, 1999). In addition, CSR has been regarded as a domestic business phenomenon in developed countries. However, in recent years, CSR has been seen all over the world, including developing countries (Carroll & Shabana, 2010). Nevertheless, the literature has not presented this type of framework to illustrate the antecedents of CSR in developing countries.

Therefore, the purpose of this study is to provide a comprehensive framework to examine the antecedents of CSR, with an emphasis on how CSR is *institutionalized* and *diffused* in developing countries. Brammer, Jackson and Matten (2012) incisively pointed out that CSR literature has largely neglected the role of *institutions*, defined as formal rules or regulations and informal social beliefs, relations and constraints (North, 1990). By saying so, Brammer, Jackson and Matten (2012) mean historically, the emergence of CSR is the result of the defeat of one form of institution over others in liberal market economies. Indeed, more than one decade earlier, Barley and Tolbert (1997) pointed out that *institutional theory* ignores the process of *institutionalization*, meaning the process of how the institutions are created, changed and reproduced. Thus, given these research needs, when we reach a comprehensive framework to examine the antecedents of CSR activities, we not only conceive of CSR as an end (i.e., firms' business practices) but also pay attention to the process of *institutionalization* of CSR. In other words, when we reach our comprehensive framework of the antecedents of CSR in developing countries, we consider CSR an *institution* resulting from the ongoing process of *institutionalization* that has made CSR diffused globally.

We build this comprehensive framework on an integrated theoretical lens of institutional theory, stakeholder theory and social cognitive theory to incorporate antecedents from multiple levels of analyses. The integrated theoretical lens presents a unique approach toward CSR, and this gives us the flexibility to integrate theoretical constructs from the individual level to the organizational and institutional levels. The remainder of this study is organized as follows. We first conduct a brief literature review to show the existing frameworks of CSR antecedents. We then present our proposed integrated framework based on our unique and integrated theoretical lens. Finally we summarize this study with our discussion and proposed future studies.

## Literature Review

Scholars have examined the antecedents or determinants of firms' CSR initiatives from different perspectives based on a variety of theoretical lenses. In the following section, we briefly review these frameworks to find out what and how we can contribute to the literature.

From the perspective of managers' decision making process and organizations' internal changes that lead to firms' involvement in CSR activities, a well-known earlier study, namely Friedman (1970) asserts that managers use CSR as a means for their own purposes, such as gaining their own social, political or career benefits at the expense of the benefits of shareholders. Similarly, some recent studies redirect our attention to the behaviors or intentions of managers and organizations' internal changes that facilitate firms' CSR initiatives. For instance, in their integrated framework, Aguilera et al. (2007) pointed out that employees' psychological needs can drive organizations to get involved in CSR activities. Tuzzlino and Armandi (1981) proposed that CSR engagement is affected by firms' hierarchical needs (Maslow, 1970), such as psychological, safety, affiliation, esteem and self-actualization. Basu and Palazzo (2008) proposed a process model that unfolds managers' sensemaking process, starting from the way managers think, discuss and act with their key stakeholders and the rest of the world in a broad sense. Maon, Lindgreen and Swaen (2009) proposed a model that focuses on the changes in **o**rganizational culture and firms' decision making processes to initiate CSR activities, resulting from pressures imposed by internal and external stakeholders. Some researchers trace the antecedents even further by directing our attention to individual values (Mudrack, 2007), the consistency between organizational values and individual values (Bansal, 2003), and individual concerns with some particular issues (Bansal, 2003; Mudrack, 2007). Indeed, individual values may impact the decision-making processes, which is important to understand how values influence firms' involvement in CSR (Hay & Gray, 1974; Swanson, 1999). Rupp, Ganapathi, Aguilera, and Williams (2006) provided a framework, which was further developed by Rupp (2011). Rupp (2011) built on a more contemporary view of organizational justice to explain that employees are more driven by motives than self-interests. Rupp et al. (2010) used self-determination theory to explain that organizational culture that fosters employee competence, relatedness, and autonomy may also promote firms' CSR engagement.

The introduction of Freeman's (1984) renowned stakeholder theory broadened scholarly views about a firm's surroundings from the initial focus of a small group of shareholders to a relatively broader group of stakeholders. Stakeholder theory indicates that firms have relationships with many constituent groups (e.g., consumers, employees, suppliers) and that these stakeholders both affect and are affected by the actions of the firm. The introduction of stakeholder theory has influenced a series of subsequent studies. For instance, Signitzer and Prexl (2008) contend that CSR activities are conducted to *deal with different stakeholders*. McWilliams and Siegel (2001) proposed a supply and demand model of CSR, arguing that there are two types of demands which are from consumers and from other stakeholders (e.g., investors, employees and community) respectively. Building on Stakeholder Theory, Barnett (2007) argued that firm-stakeholder relations are dynamic given the relations' path-dependent nature because stakeholders' influence capacity is dynamic over time. The dynamic responses of firms toward the dynamic stakeholder capacities then further lead to firms' different decisions in CSR activities and different financial performance. From an instrumental perspective (i.e., self-interest driven), Jones (1995) developed a model which integrates economic theory and ethics in order to reach mutual trust between firms and their stakeholders. The mutual trust can bring firms increased competitive advantages, which incentivizes firms to commit to ethical behaviors. Porter and Kramer (2006) share the same view of conducting CSR activities as a way to increase firms' competitive advantages.

From an institutional perspective, Campbell (2007) presents a set of reasons that explain why firms conduct CSR activities. He argues that the relationship between basic economic conditions and corporate CSR behaviors is mediated by institutional conditions (e.g., public and private regulations, institutionalized norms that guide appropriate corporate behaviors, the presence of nongovernmental and other independent organizations). Aguilera et al. (2007) proposed a multilevel (macro, meso, micro) theoretical model (organizational justice, corporate governance, and varieties of capitalism) to explain why organizations are increasingly initiating CSR activities. The reason is that organizations are pressured to engage in CSR by many different actors, each driven by relational, instrumental, and moral motives. Schultz and Wehmeier (2010) building on institutional theory, sense-making and communication theories, proposed a multilevel framework to explain firms' involvement in CSR activities at macro, meso and micro levels.

In general, these studies have examined the antecedents of firms' involvement in CSR activities from different perspectives. However, we found that these studies have considered CSR activities the given business practices, and have largely ignored the process of CSR institutionalization (i.e., CSR as a process). According to institutional theory, once an activity is institutionalized, it can promote the diffusion, furthering the process of institutionalization (Powell, 1991; Scott, 1995). We further noted that although scholars have recognized that CSR has been widely diffused in developing countries (e.g., Zhao, Park & Zhou, 2014), very few scholars have developed theoretical frameworks to examine the antecedents and the institutionalization of CSR in developing countries systematically. In addition, the significant role that MNEs have been taking in this institutionalization and diffusion process has not been highlighted. In our opinion, the presence of MNEs is a critical antecedent of CSR in developing countries because MNEs indeed have their inherent advantages in facilitating the institutionalization and diffusion of CSR activities, especially from developed countries, which have been commonly considered where CSR activities originate, to developing countries where CSR activities have been seen recently. Therefore, in this study we intend to comprehensively explore the antecedents that facilitate the institutionalization and diffusion of CSR activities to reach an integrated theoretical model. We pay attention to incorporate firms' intrinsic and proactive factors (e.g., managers' values), and external factors (e.g., pressures from stakeholders, social movement activists, and enhanced social cognition) that contribute to firms' final decisions of taking CSR initiatives.

In the following section, we explore the antecedents that facilitate the institutionalization and diffusion of CSR activities in developing countries, with an emphasis on the effects of MNEs on the institutionalization and diffusion process.

## The Integrated Theoretical Framework

Granovetter (1985) stated that a firm or an organization is surrounded by organizations and individuals to which it has connections**.** Stakeholder theory describes the relationship between the corporations and the environment as "a constellation of cooperative and competitive interests possessing intrinsic value" (Donaldson & Preston, 1995: 66). Wood (1991: 695) pointed out that "business and society are intertwined rather than distinct entities." Thus, Wade-Benzoni, et al. (2002)

stated that in order to fully understand managers' real-world decision makings, it is critical to understand the business environment or social system, such as cultural, social, institutional and political surroundings, in which the business is embedded. Thus, in the following development of our theoretical framework, we view an organization as an entity with its penetrable boundary through which the organization interacts with the business environment. An organization itself is constituted of managers and the other employees, a group of individuals possessing their individual values according to sociologists (e.g., Kluckhohn, 1951; Schwartz, 2012). Meanwhile, the business environment that surrounds an organization is constituted of a variety of *institutions* that an organization should comply with, and other organizations, some of which are the focal firm's stakeholders according to stakeholder theory.

Institutions indicate what is right and what is not, and what can be done and what can not for organizations and individuals (Fligstein, 1992; Jepperson, 1991). Institutions are generated from the continuous interactions among organizations (Benson, 1977). Individual values are defined as "A conception, explicit or implicit, distinctive of an individual or characteristic of a group, of the desirable which influences the selection from available modes, means and ends of action" (Kluckhohn, 1951: 395). This construct is considered crucial in explaining individuals' attitudes and behaviors (Schwartz, 2012) and social, organizational and individual change (Durkheim, 1897, 1964; Weber, 1905, 1958), and categorizing cultural groups and individuals (Schwartz, 2012). According to institutional theory, in a business environment, institutions affect individual values through regulative, normative and cognitive mechanisms (DiMaggio & Powell, 1983; Scott, 1995). Therefore, individual value systems are institutionally influenced. Institutions have a powerful influence on the formation and perpetuation of *values* within these individual groups and in society in general.

Since organizations or firms are embedded in a web of institutions, firms need to comply with all institutions in order to gain legitimacy (March & Simon, 1993; Meyer & Rowen, 1977), which contributes to institutional stability (DiMaggio & Powell, 1983). However, these institutions have various linkages, complementary or conflicting with each other (Aoki, 2001; Maurice et al, 1986). Complementary institutions refer to the situation where the viability of certain institutions increases due to the presence of other institutions. Complementary institutions stabilize each other. For instance, liberal property rights support a market-based financial system, which leads to a low degree of complexity in inter-firm networks (Aguilera and Jackson, 2003: 460). On the contrary, conflicting institutions indicate incompatibility among institutions. The incompatibilities eventually result in institutional contradictions, so that the viability of one institution reduces with the presence of another conflicting institution. For instance, firms sometimes have to adopt certain business practices that may conflict with their efficient financial goals (Meyer & Rowen, 1977; Benson, 1977). Continuously being exposed to institutional contradictions may lead social actors such as organizations to seek changes to solve the conflicts, resulting in institutional changes and/or the emergence of new institutions (Benson, 1977). Indeed, institutions influence firms' actions (DiMaggio, 1988, 1991; Oliver, 1991) by influencing firms' perceptions about opportunities and alternatives, which are realized by and reflected in individuals' perceptions about opportunities and alternatives. Thus, in the end, individuals and organizations, through choice and action, modify and even eliminate certain institutions

(Whittington, 1992), leading to institutional change. Thus, institutional contradictions are the source of institutional change (e.g., DiMaggio & Powell, 1991; Friedland & Alford, 1991; Sewell, 1992; Whittington, 1992). The emergence of new institutions via organizations and individuals, who have the effect of *agency,* a construct introduced by institutional theory as "an actor's ability to have some effect on the social world – altering the rules, relational ties, or distribution of resources" (Scott, 2008: 77)**.**

The role of organizations in institutional change has been emphasized in institutional theory. Institutional theory indicates that the institutional environment has significant influences on organizations or firms' behaviors at the society, industry and organizational levels. Firms, in order to gain legitimacy, constrainedly or instrumentally follow existing institutions, contributing to institutional stability. This process may at the same time cultivate the emergence of new institutions by following the innovative practices of leading organizations which have attempted to change institutions. For instance, Ahmadjian and Robinson (2001) presented the deinstitutionalization of permanent employment among public listed companies in Japan between 1990 and 1997, and the institutionalization of downsizing when more and more Japanese firms follow this business practice. The individual firms' behaviors in the end contribute to the diminishing of initial institutional constraints, and the emergence of new institutions, reflected in diffusion of new or different business practices.

Nevertheless, in order to reach a comprehensive framework to explain the antecedents of CSR in developing countries by conceiving of CSR as institutionalized business activities, we found that there are several points that institutional theory is relatively weak or vague to explain or provide satisfactory answers. First, institutional theory itself can not explain where the institutional contradictions come from. Second, although institutional theory introduced the construct of agency and emphasized that organizational and individual actors are institutionally influenced, it does not highlight the bilateral relationship between these actors, namely not only organizational actors but also individual actors can inversely influence the institutions that they are embedded in. Third, institutional theory views that all other organizations influence the focal organization equally without noticing the fact of unequal influences from some of the surrounding organizations (Seo & Creed, 2002). Therefore, in order to reach a comprehensive picture of the antecedents of CSR in developing countries, we need to integrate some other theoretical lenses with institutional theory.

**Where Institutional Contradictions Come From**

Many scholars have examined this question. Seo and Creed (2002: 226-229) summarized four sources of institutional contradictions: *"(1) Legitimacy that undermines functional efficiency; (2) Adaptation that undermines adaptability; (3) Intrainstitutional conformity that creates institutional incompatibilities; (4) Isomorphism that conflicts with divergent interests."* In this study, for our research question about the antecedents that lead to institutionalization and diffusion of CSR in developing countries, we complement and highlight two external factors that have been largely ignored in the literature. One is increased globalization. Another is the increased presence of MNEs in developing countries. Both factors may introduce and expose organizations and individuals of developing countries to different institutions or business practices from other countries which are usually more advanced in economic and institutional development. Thus, building on Seo and Creed (2002), we add and highlight these two factors to explain the process of the institutionalization and diffusion of CSR in developing countries. In the following section, building on institutional theory, we bring social cognitive theory and stakeholder theory to illustrate how these two external factors cause institutional contradictions at different levels, and then lead to the institutionalization and diffusion of CSR in developing countries. Thus in this way, we reach our multilevel theoretical framework to explain the factors that have caused the institutionalization and diffusion of CSR in developing countries.

**The Introduction of Social Cognitive Theory**

As we mentioned earlier, institutional theory has emphasized how the institutional environment influences the focal organization at the society, industry and organizational levels. It also indicates how institutions influence individual values. However, we argue that institutional theory overlooks the initiatives that individual actors may have to influence and change their organizations and even society. Thus, we argue that we need to bring social cognitive theory to highlight the effects that individuals have toward the organization and society as a whole. Bandura (2001: 1) introduced social cognitive theory and explicitly pointed out that "The capacity to exercise control over the nature and quality of one's life is the essence of humanness". Bandura (2001) stated that individuals can create certain regulations or rules (i.e., institutions), which then constrain and enable individuals' behaviors. Thus, individuals are both socially/institutionally influenced while they can also be proactive in shaping their social environment under the guidance of the values they hold (Bandura, 2001). According to social psychologists, the construct of individual values has a central element of the *self* (Wade-Benzoni, et al., 2002), meaning that individuals tend to be concerned with fairness (Adams, 1965; Bies & Moag, 1986) which is usually self-biased (e.g., selectively accept information that favors the self) when they encounter conflicts (e.g., Allison & Messick, 1990). In addition, individuals tend to prefer to be perceived as those who value behaviors or activities that can enhance social welfare (Wade-Benzoni, et al., 2002).

**The increased globalization**

Nowadays, the extent of globalization is increasing. Country level political, cultural, economic and social systems are increasingly influenced by increased globalization because of increased inter-country dependence and global economy (Keohane, 1992). Countries that are weak in social and economic interactions with the rest of the world are conceived as laggard and vulnerable to global market forces (Bandura, 2001). Therefore, countries have been striving to have extensive interconnections with other countries, leading to quick diffusion of any happenings from one corner of the world to the rest (Bandura, 2001). Advanced modern telecommunication and transportation technologies have been facilitating this process. The advanced telecommunication technologies and social media help transmit ideas, values, business practices and behavioral styles across different countries with unprecedented speed. Hence, individual values are continuously influenced by national and global forces. Any initiatives originated from any corner of the world are known and responded to globally, so that individuals from all over the world can easily form common values and goals that target to better human lives globally. Individuals from developing countries are certainly exposed to global social ideology, ideas, and increasingly standardized education, resulting in similar perceptions of most social issues, such as environmental protection, food security and corporate social responsibility, that global society commonly encounters. Thus in developing countries, armed with common values, individuals are aware of the CSR issues and impose pressures on local firms and branches of foreign MNEs to exercise CSR activities.

Because individuals may belong to certain organizations while at the same time are embedded in society. They may impose internal influences as well as external influences toward an organization with the guidance of their overall values and social identities. Thus, individuals' influences may happen at an individual level as well as at a society level.

### The Introduction of Stakeholder Theory

Institutional theory emphasizes the significant influences of the institutional environment at the societal, industry, and organizational levels on the focal organization, which provides the legitimacy of integrating stakeholder interests into a focal firm's corporate governance because stakeholders are part of the institutional environment (Suchman, 1995). Indeed, institutional theory has emphasized the role of public stakeholders (e.g., governments, special interest groups, environmentalists and the media) who are assumed to impose equal influences on the focal firm, while the theory paid less attention to private stakeholders (e.g., owners, customers, employers, and suppliers) (Freeman & Evan, 1990). Stakeholder theory (Freeman, 1984) emphasizes the role of both public stakeholders and private stakeholders. From a stakeholder perspective, the values and interests of key private stakeholder groups, such as suppliers and creditors who may have critical asset-specific investments in a focal firm, should exert normative and more significant influences on the focal firm (Freeman & Evan, 1990; Reynolds, Shultz and Hekman, 2006) than the other stakeholders. In addition, Cummings and Patel (2009) pointed out that stakeholders influence each other via the social, economic and cultural environment because some stakeholders may have more salient influences than the others in certain circumstances, resulting in complex and dynamic influences on the focal firm's decision makings. Therefore, we argue that for our research question in this study, it is important and necessary to integrate stakeholder theory into institutional theory to emphasize the significant role of the influences of some critical stakeholders such as MNEs in indigenous firms' decision making processes regarding their economic and social behaviors.

From an economic perspective, Spencer (2008) analyzed MNEs' possible positive and negative influences on indigenous firms. Spencer (2008: 342) concluded that "MNE investment can have a crowding out effect in the short run but positive horizontal spillovers over the longer term through the mechanisms of demonstration effects, local linkage effects, employment effects, and competition effects." Similarly, from a perspective of firms' involvement in CSR practices, we argue that MNEs may, in the short term, impose pressures on indigenous firms in host countries by exposing indigenous firms to different and usually more advanced CSR practices, but in the long run, through demonstration effects and being critical private stakeholders of indigenous firms, MNEs often can influence and guide indigenous firms to get involved in CSR activities, contributing to overall social welfare in host countries and the entire business world. We next illustrate how this process is realized from the angles of MNEs as public stakeholders and MNEs as private stakeholders.

**MNEs as public stakeholders**

According to IB scholars, MNEs' foreign affiliates face liability of foreignness (LOF), the extra cost the MNEs face because of unfamiliarity of host business environments (Hymer, 1976; Mezias, 2002; Nachum, 2003; Zaheer, 1995). To overcome LOF, MNEs may take economic adaptation strategies (e.g., adjust entry mode, avoid asset-specific investments) (Eden & Miller, 2004; Kostova & Zaheer, 1999; Xu & Shenkar, 2002; Meyer & Thein, 2014) with the purpose of enhancing legitimacy, reducing public visibility as a foreign entity and minimizing the likelihood of being challenged. Besides the economic adaptation practices (Zhao, Park & Zhou, 2014), MNEs are also suggested to adopt social adaptation activities (e.g., CSR activities) (Gardberg & Formbrun, 2006; Zhao, Park & Zhou, 2014) which can help MNEs sustain operations in host countries, and significantly improve and change MNEs' image from that of solely profit gaining to that of cooperative in both economic growth and social welfare in the host country (Dunning, 1998; Luo, 2001). Moreover, foreign affiliates of MNEs are embedded in multiple different institutions where they operate (Kostova, 1999; Xu & Shenkar, 2002; Meyer, Ding, Li & Zhang, 2014), facing dual pressures of local responsiveness (i.e., comply with local institutions in host countries to gain legitimacy) and global integration (i.e., conform to the organizations' global values (Bartlett & Ghoshal, 1989; Prahalad & Doz, 1987)). At the same time, MNEs are also under increased global pressures to take social responsibilities. Given all these pressures, MNEs need to perform better in conducting CSR activities that should be corresponding to the prevailing institutions (Jackson & Apostolakou, 2010).

In developing countries, the presence of foreign MNEs with their often superior CSR practices functions as an external force to demonstrate CSR best practices to indigenous firms. This demonstration effect challenges the existing patterns of CSR practices. This process is called *de-institutionalizing* (Kerr, Janda & Pitts, 2009; Westney, 1993). Correspondingly, indigenous firms learn and adapt to the challenges. This process is referred to as *dis-embedding* (Dacin et al., 1999). These two processes intertwine and reinforce each other, leading to a new legitimate status, which is critical for firms' long term survival and profitability (DiMaggio & Powell 1983; 1991).

**MNEs as private stakeholders**

Nowadays, more and more MNEs are involved in indigenous firms' supply chains, taking significant roles as their private stakeholders, especially when they have capital investments in indigenous firms. In order to respond to the requirements of MNEs' global integration with their headquarters and maintain consistency with other MNE subunits, MNEs may impose critical influences on indigenous firms by requiring indigenous firms to conduct CSR activities with the same criteria of their global operations. For instance, Starbucks is a customer, a critical stakeholder, of many coffee farms. Starbucks initiated its C.A.F.É. practices, Coffee and Farmer Equity Practices, requiring its coffee suppliers to sustainably and ethically grow and process coffee. In order to be involved in Starbucks' supply chain of coffee production, the economic, social and environmental aspects of coffee farms' coffee production are evaluated carefully. This initiative has so far benefited more than one million workers from those participating farms (Starbucks, 2015).

Thus, based on our above base argument that in general MNEs are incentivized or forced to perform better than indigenous firms in terms of CSR activities, the presence of MNEs can exert direct or indirect pressures on indigenous firms to take initiatives to conduct CSR activities in developing countries. The following figure 1.1 shows the integrated framework. The increased globalization influences the individuals and organizations at the society level, reflected in the changed institutions and individual values as a whole (e.g., individuals have increased requirements on CSR). This relationship is multilateral. Since part of the individuals have employment with the focal firm, these individuals with changed individual values about CSR may take proactive CSR activities via the focal organization. Meanwhile, the presence of foreign MNEs may play a role as a focal firm's public stakeholders, imposing institutional pressures on the focal firm via their demonstration effects. The presence of foreign MNEs may also play a role as a focal firm's private stakeholders, influencing a focal firm directly and indirectly through influencing the focal firm's other private stakeholders. All these relationships are multilateral, resulting in a focal firm's proactive and reactive CSR activities.

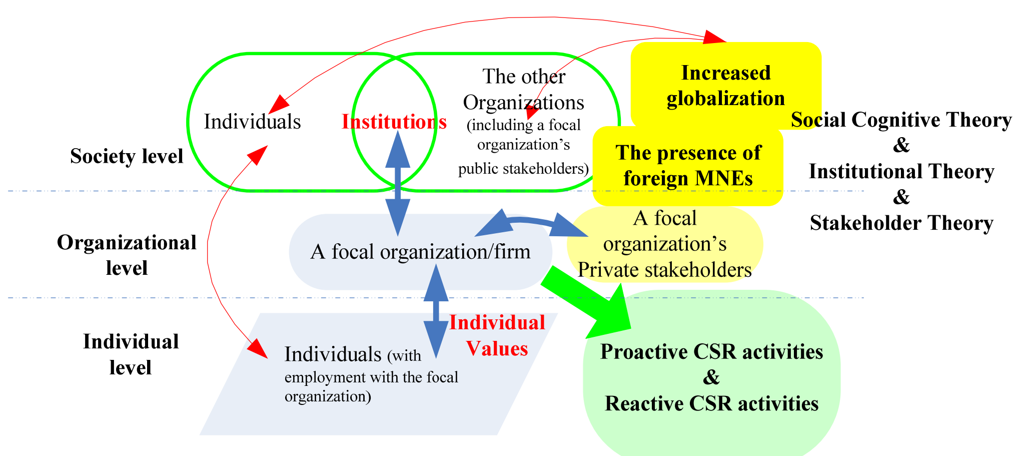


**Figure 1.1 The integrated theoretical framework**

## Discussion And Conclusion

In this study, we addressed the question about the antecedents that influence indigenous firms from developing countries increasing engagement in CSR activities. We broadly define CSR activities as a variety of activities (e.g., investing in enhancing infrastructure; innovation in production to avoid degrading natural environment) that firms go beyond complying with the laws, and further benefit the local community where firms reside (McWilliams & Siegel, 2001). We proposed two additional antecedents that have been largely overlooked in the existing literature, namely increased globalization and the presence of foreign MNEs, which have contributed to the process of institutionalization and diffusion of CSR in developing countries. Both factors function as external forces to accelerate the process in developing countries. We argued that increased globalization has increasingly enhanced and unified individual values about CSR globally. With the enhanced social ideology toward CSR issues, individuals have being increasingly aware of CSR and imposing higher pressures on firms. Individuals may take proactive actions via the organizations with which they have employments, and broadly at the society level individuals may impose overall pressures on firms via certain social organizations that are constituted of some individuals with similar self-identities or collective social movements. We also argued that foreign MNEs in developing countries may function as indigenous firms' critical private stakeholders, imposing significant influences on indigenous firms' CSR related decision making, and the presence of foreign MNEs may function as public stakeholders which directly or indirectly influence indigenous firms to take initiatives to conduct CSR activities through the focal firms' isomorphic processes.

Our illustration is based on an integrated theoretical lens of institutional theory, stakeholder theory and social cognitive theory. In so doing, we approached our research question from multiple levels of analyses, including individual level, organizational level and institutional or society level. By integrating social cognitive theory and stakeholder theory into institutional theory, we strengthened the explanatory power of institutional theory in explaining CSR issues. We thus contribute to the literature with an integrated framework that comprehensively explains the antecedents of the institutionalization and diffusion of CSR in developing countries. We highlight the effects of the presence of foreign MNEs. We hence call for scholarly attention to MNEs and their involvement in a global CSR enhancement agenda, and scholars should subsequently call for policy makers' attention and cooperate with policy makers to launch effective foreign investment policies to facilitate the global enhancement of CSR.

By including the factor of changed individual values due to increased globalization, we emphasized that currently firms taking initiatives to conduct CSR activities is not only instrumentally oriented and institutionally influenced as indicated in existing literature, but also ideologically oriented. In other words, individuals, especially managers, may take proactive actions to conduct CSR activities. Therefore, measures can be taken to enhance individuals' perceptions about CSR and encourage individuals getting involved in seeking innovative ways to conduct CSR activities. Moreover, since MNEs have direct and indirect influences on indigenous firms in terms of conducting CSR activities, scholars together with policy makers should have effective and innovative measures to stimulate or encourage MNEs to perform superiorly in terms of CSR activities, so that MNEs can further positively influence indigenous firms to follow the positive behaviors.

The increased overall involvement of CSR activities by MNEs and indigenous firms can arguably enhance social welfare, including human development and overall community environment in developing countries. For instance, Nestle company, among many other firms that have been pursuing CSR initiatives, initiated a global water stewardship program, leading to positive social changes (Nestle, 2014). If this kind of initiatives is learned and replicated by numerous other indigenous firms from different industrial areas, the positive effects on the lives of these firms' employees, the local communities and the entire society in which firms are embedded will be enhanced. Indeed, moving forward to the later stages of CSR development requires individuals of organizations or firms, individually and collectively, to understand the concept of CSR and be aware of the values of CSR at all levels (Basu & Palazzo, 2008). Particularly, CSR principles should be integrated into an organization's long -term strategies and decision-making processes.

To further validate our arguments about the effects of increased globalization and the presence of foreign MNEs in boosting indigenous firms' involvement in CSR, we dedicated two empirical studies, namely the following two essays, to provide evidence at a country level and at an intra-country level respectively. In these two essays, we focus on providing evidence of the effectiveness of the presence of foreign MNEs in influencing indigenous firms' involvement in CSR via the institutions in host business environments.

## III. ESSAY 2: MNES AS AGENTS LEADING TO DYNAMIC HOST COUNTRY NATIONAL INSTITUTIONAL CHANGE – FDI AND CSR

### Introduction

Because “*businesses and society are intertwined*” (Wood, 1991: 695), business has to respond to societal *institutions* by conducting appropriate business practices (Bovens, 1998; Brammer, Jackson & Matten, 2012; Campbell, 2007). Institutions are defined as formal rules or regulations and informal social beliefs, relations and constraints (North, 1990). Indeed, firms are increasingly required explicitly or implicitly to “provide innovative solutions to deep-seated problems of human misery” (Margolis & Walsh, 2003: 268; Schultz & Wehmeier, 2010) by governments, non-governmental organizations (NGOs) and the public alike, “especially when those problems are juxtaposed to the wealth-creation capabilities of firms – or to the ills that firms may have helped to create” (Margolis & Walsh, 2003: 270). Therefore, in recent years, corporate social responsibility (CSR) has attracted more and more attention from scholars and at the same time, more and more firms have taken initiatives to conduct CSR activities despite the long debate about whether business should be involved in CSR activities (i.e., CSR advocators such as Bowen (1953) and Jones (1995) versus CSR opponents such as Friedman (1962) and Jensen (2002)). Although a consensus on the definition of CSR has not been fully achieved (e.g., Campbell, Eden & Miller, 2012), CSR is usually defined as corporations’ discretionary activities with the purpose of enhancing social welfare (Barnett, 2007). In this study, we join Barnett (2007) and McWilliams and Siegel (2001) in defining CSR as firms’ discretionary activities that go beyond compliance (e.g., medical leave and equal employment opportunity that are legally mandated (Barnett, 2007)), and enhance social welfare.

Institutional theory has highlighted that firms' decision making and subsequent behaviors are significantly influenced by institutions (Barley & Tolbert, 1997), and firms need to comply with all institutions to gain legitimacy (March & Simon, 1993; Meyer & Rowen, 1977). Yet, institutional theory also indicates that not all institutional rules are coherent but very often conflict with each other. Thus, institutional theory incorporated the construct of agency from the economics literature, meaning an actor's capabilities of imposing influence on the social world (Scott, 2008). Over time, organizations may seek to influence institutions and make some changes when they consistently experience conflicting institutions (Benson, 1977). In the research stream on the interaction between institutions and firms' involvement in CSR activities, existing studies (e.g., Campbell, 2007; Ioannou & Serafeim, 2012) have primarily focused on how *institutions* influence firm CSR behaviors and very few studies have focused on how firms may influence institutions which will guide or constrain firms' further behaviors (Barley, 2007; Boddewyn, 1988). Further, we note that the effect of the presence of multinational enterprises (MNEs), as an increasingly expanding subset of firms in general across the globe, on the dynamics of institutions and CSR-related behaviors of indigenous firms in host business environments has not been highlighted either. MNEs are embedded in different business environments and exposed to different *institutions* (Rodriguez, Siegel, Hillman & Eden, 2006), which sometimes unavoidably conflict with each other, and there might be inconsistencies between MNEs' goals and the requirements of local institutions (Eden & Lenway, 2001). Because of the multiple and complex institutions in which MNEs are embedded, the bilateral influences between MNEs and different institutions are complex (e.g., Kostova, 1999). Thus, scholarly studies of these bilateral influences are critical in order to provide insights for policy makers to better launch proper policies to facilitate or restrict foreign direct investment, and for business practitioners to better serve their decision making (Wiig & Kolstad, 2010).

In order to contribute to the literature in this regard, in this study we address how the presence of foreign MNEs influences a country's institutions and how these two factors influence the overall CSR involvement in different countries. Theoretically, we build on international business (IB) theories and institutional theory. We first argue that MNEs are embedded in complex institutional environments (i.e., institutions in home and host business environments at both country and intra-country levels), and face liability of foreignness (LOF), meaning costs caused by the unfamiliarity of the host business environment (i.e., *cultural, political, and economic differences*, and *the need for coordination across geographic distance, among other factors)* (Zaheer, 1995: 341). As one of their coping strategies, MNEs need to act in a *more socially responsible manner than other local firms in regard to CSR activities* to gain legitimacy. We second argue that MNEs' overall *superior* CSR practices would directly and indirectly influence indigenous firms' engagement in CSR activities through institutions and indigenous firms' isomorphic processes, defined as the adoption of business practices that have been taken by other relevant organizations (Zuker, 1987). So that this process finally results in overall improvement in terms of CSR in host countries.

This study attempts to combine the CSR literature and the IB literature, and systematically examine how the variant presence of MNEs in different countries influences host countries' overall CSR. The remainder of this paper is organized as follows. First, we conduct a literature review about the mutual influences between firms and the institutional environments in which they are embedded. Second, we develop our hypotheses building on IB theories and institutional theory. Third, we conduct an empirical analysis to answer our research questions. Fourth, we discuss the results. Finally, we conclude this study with our discussion of the contributions and implications, limitations and future studies.

## Literature Review

The existing literature has examined how institutions influence firms' CSR-related behaviors or decision making. Studies of this research stream are primarily at a country cluster level such as viewing European countries as a whole or at a country level, focusing on legal processes, rules and regulations, political policies, and cultural norms in explaining firms' CSR-related behaviors (Clarkson, 1995; Freeman, 1984). In alignment with North's (1990) definition of institutions (i.e., formal rules and informal norms), the existing literature can be categorized into two types. One is based on institutions' feature as a regulatory force, meaning formal rules and regulations utilized to constrain or regulate firms' behaviors (Lawrence & Morell, 1995; Scott, 2001; Vredenburg & Westley, 1993). Another is based on institutions' feature as a normative force, namely informal norms or self-generated standards that direct firms' subsequent behaviors (Selznick, 1957; Suchman, 1995).

There are also a few studies that focus on industrial level differences of institutional influences. For example, Buehler and Shetty (1974) find that different CSR-related activities across industries are primarily driven by legislation. Van Tulder and Kolk (2001) found that in the sports industry, the effectiveness of certain institutions is critical for firms to adopt codes of ethics. Jackson and Apostolakou (2010: 372) found that "CSR is more extensive in sectors where firms have a strong negative impact upon stakeholders and, thus, are more likely to adopt institutionalized forms of CSR". In addition, the literature has also seen the emergence of some studies that are based on the theoretical lens of stakeholder theory, emphasizing the instrumental perspective of firms' taking initiative in CSR activities because of pressures from stakeholders. In the following table 2.1, we list some representative studies of this research stream to demonstrate how firms' CSR-related activities or performance are influenced by institutions at different levels.

**Table 2.1 Literature on institutional influences on firms' CSR**

| Author(s) | Type of study | Unit of analysis | Context(s) | CSR activities | Finding |
|---|---|---|---|---|---|
| **Mattern & Moon (2008)** | conceptual study | country level | US vs. Europe | forms of CSR activities | examined how the different institutional systems between the US and Europe influence different types of CSR activities in these two areas over time |
| **Aguilera, Rupp, Williams & Ganapathi (2007)** | conceptual study | country level | N/A | oganizations' involvement of CSR initiatives | a multilevel theoretical model, explaining why firms increasingly initiate CSR activities, which potentially lead to positive social change |
| **Jackson & Apostolakou (2010)** | empirical study | country cluster level; sector level | Anglo-Saxon countries, Nordic countries, Central European countries, Latin countries (totally 16 Western European countries); high-impact industries, medium-to low-impact industries, mixed industries | multiple CSR dimensions from economic, environmental and social aspects | because of different institutional determinants of CSR, firms from the more liberal market economies of the Anglo-Saxon countries score higher on most dimensions of CSR than firms in the more coordinated market economies in Continental Europe |
| **Meek, Roberts & Gray (1995)** | empirical study | contry level | US, UK, and Continental Europe | information disclosures of three types of information (strategc, nonfinancial, financial) | the distinct national and regional influences across the US, UK and continental Europe on the disclosure of strategic, finanical and nonfinancial information. |
| **Langlois & Schlegelmilch (1990)** | empirical study | country level | US vs. European countries (UK, France and Germany) | adoption and contents of codes of ethics | significant differences between European firms and US firms in adopting and in content of codes of ethics |
| **Maignan (2001)** | empirical study | country level | US, France, Germany | consumers' response to socially responsible organizations | "national level institutions influence consumers' understanding of CSR in France, Germany and US. Specifically, French and German consumers pay more attention to firms' social responsibility, less to economic performance, while US consumers have the opposite approach to firms' social responsible and economic performance" |
| **Maignan & Ralston (2002)** | empirical study | country level | France, UK, Netherlands and US | disclosure of CSR activities on website | different cultural norms lead to different public perception of business regaring social responsibility in four countries |
| **Waldman et al (2006)** | empirical study | country level | 15 countries | managers' views on social responsibility | cultural dimensions (i.e., collectivism and power distance) predict managers' views on social responsibility across countries |
| **Ringov & Zollo (2007)** | empirical study | country level | 23 countries | firm social and environmental performance (measured by a firm's Intangible Value | cultural dimensions (i.e., power distance and masculinity) have negative influence on corporation social and environmental performance |
| **Chapple & Moon (2005)** | empirical study | country level | 7 Asian countries | website reporting of firm CSR activities | The variance of CSR reporting across the seven Asian countries can be better explained by factors of national business systems rather than national development stage. |
| **Smith, Adhikari & Tondkar (2005)** | empirical study | country level | Norway/Denmark vs. U | corporate social disclosure in annual reports | the way how the role of a firm and its stakeholder is defined in a country influences the extent and quality of corporate social disclosure in annual reports |
| **Husted & Allen (2006)** | empirical study | firm level | Mexico | firms' CSR compliance strategy | "institutional pressures, rather than strategic analysis of social issues and stakeholders, are guiding decision-making with respect to CSR." |
| **Brammer & Pavelin (2005)** | empirical study | country level | US vs. UK | corporate community contributions | cross-country differences between UK firms and US firms in the patterns of corporate community contributions |

In summary, this literature mainly emphasizes the influence of broad national-level or industrial-level institutions on firms' CSR behaviors. Among these studies, only a few (e.g., Chapple & Moon, 2005; Christmann & Taylor, 2001; Husted & Allen, 2006) have set MNEs as research objects. Even f*ewer studies* have pointed out that MNEs may influence the institutions of host countries, and then the two factors, namely the presence of MNEs and host countries' institutions, can further influence indigenous firms' business and/or non-business behaviors, probably in a gradual manner. Among these very few studies, Brammer, Jackson and Matten (2012) pinpointed that due to *the country-of-origin-effect* (Noorderhaven & Harzing, 2003), many western firms' CSR behaviors reflect western values and norms which largely differ from those of firms from emerging markets (Muthuri & Gilbert, 2010). This discrepancy may lead to institutional change in emerging markets due to the presence of foreign MNEs. For instance, Escobar and Vredenburg (2011) presented an example that a western oil company's social investments (e.g., building schools and hospitals) in Africa can change an African country's CSR-related institutions. Hence, in this study, we intend to examine the effect of the presence of MNEs in influencing host institutions and enhancing indigenous firms' CSR related behaviors in host countries by conducting an empirical analysis at a country level. Specifically, we examine how the presence of MNEs influences the institutions in host countries, and how these two factors further influence indigenous firms' CSR-related behaviors. In the following section, we develop our theoretical arguments based on IB theories and institutional theory.

## Theoretical Lenses And Hypotheses Development

### MNEs' Social Adaptation Strategy in Host Business Environments

IB scholars have long discussed that because MNEs are unfamiliar with their host business environments, their foreign affiliates face LOF (Hymer, 1976; Mezias, 2002; Nachum, 2003; Zaheer, 1995). Moreover, MNEs' stakeholders in host countries, such as host government and the public, may not have sufficient information about MNEs (Christmann & Taylor 2001; Wheeler 1999). Thus host country stakeholders may monitor MNEs' foreign affiliates with different, usually higher criteria than those applied to indigenous firms, which exacerbates MNEs' LOF in host countries (Eden

& Miller, 2004; Zhao, Park & Zhou, 2014). MNEs may take economic adaptation strategies (Zhao, Park & Zhou, 2014) such as adjusting their entry modes and avoiding asset-specific investments (Eden & Miller, 2004; Kostova & Zaheer, 1999; Xu & Shenkar, 2002; Meyer & Thein, 2014), joint venturing with legitimate local actors (Lu & Xu, 2006) or adopting organizational structures that are common in the host business environments (Chan & Makino, 2007; Yiu & Makino, 2002) to overcome LOF. In so doing, MNEs aim to gain legitimacy, minimize public visibility and reduce the possibility of being challenged. Besides these economic adaptation strategies (Zhao, Park & Zhou, 2014), MNEs are suggested to adopt social adaptation strategies, such as CSR activities (Gardberg & Formbrun, 2006; Zhao, Park & Zhou, 2014) to sustain MNEs' operations in host business environments. Adopting not only economic but also social adaptation strategies, MNEs in host business environments could significantly change or improve their image from being solely profit gaining to being supportive in both economic growth and social welfare in the host country (Dunning, 1998; Luo, 2001). Therefore, investments in CSR activities could be effective for MNEs to build legitimacy to complement their purpose of profit gaining in host countries (Kostova, Roth & Dacin, 2008).

IB scholars (Bartlett & Ghoshal, 1989; Kostova, 1999; Kostova & Roth, 2002; Kostova, Roth & Dacin, 2008; Prahalad & Doz, 1987; Westney, 1993) have long discussed MNEs' local responsiveness (i.e., comply with local institutions in host countries to gain legitimacy) and global integration (i.e., conform to their global values). MNEs are embedded in multiple institutions (Kostova, 1999; Xu & Shenkar, 2002; Meyer, Ding, Li & Zhang, 2014) which are usually different from or even conflict with each other, and MNEs are under increased and often higher global pressures from organizations such as the United Nations and the Organization for

Economic Co-operation and Development (OECD) than their counterparts of indigenous firms. Under all these pressures, MNEs need to adopt standardized codes of conduct (Rodriguez, Siegel, Hillman & Eden, 2006), and perform better in conducting CSR activities that should correspond to the prevailing institutions with higher standards (Jackson & Apostolakou, 2010).

Admittedly, different types of MNEs (e.g., state-owned MNEs vs. non-state-owned MNEs) might face different levels of institutional pressures and LOF, which may lead to different perceptions about CSR and different needs for CSR (e.g., McWilliams & Siegel, 2001). Thus, different types of MNEs may adopt different strategies in determining CSR related activities to respond to LOF and institutional pressures. Meyer, Ding, Li and Zhang (2014), for instance, found state-owned MNEs face more complex institutional pressures in host countries than private MNEs. Campbell, Eden and Miller (2012) found that *foreign affiliates from more distant home countries are less willing and less capable to conduct CSR activities in host-countries.* Moreover, there are some MNEs (e.g., Gazprom's oil spill caused significant environmental impacts) that have behaved in socially irresponsible manners (e.g., deceiving customers, polluting the environment). However, many MNEs conduct socially responsible activities (Campbell, 2007; Muirhead et al., 2002). Therefore, we argue that despite the variant antecedents and consequences of MNEs' CSR-related activities, in general MNEs behave in a more socially responsible manner than indigenous firms to avoid negative consequences (e.g., financial loss, reputation deterioration) in the host business environments, as well as to be consistent with headquarters requirements.

Building on the above base argument that on balance MNEs perform better than indigenous firms in CSR-related practices, in the following section, we argue that seen through the lens of institutional theory, the actual presence of MNEs in different countries will directly or indirectly influence indigenous firms' overall involvement in CSR activities.

**MNEs As A Significant Part of Indigenous Firms' Surroundings**

Building on organizational sociology, institutional theory (DiMaggio & Powell 1983, 1991; Meyer & Rowan, 1977; Scott, 2001) has been one of the most dominant theoretical approaches used in the CSR literature to explain why firms take initiatives to conduct CSR activities (Bies, Bartunek, Fort & Zald, 2007; Gardberg & Fombrun, 2006; Marquis, Glynn, & Davis, 2007; Matten & Moon, 2008). The primary argument of this approach is that firms are embedded in a certain business environment, thus firms are influenced by the environment. This approach focuses on *isomorphism* (Zucker, 1987: 443), a process of adaptation that is reinforced by the interactions between the focal organization and other surrounding organizations as well as the focal environment. Institutional theorists define the relevant environment as the intermediate between the society as a whole and the organization as a single focus (Westney, 1993). DiMaggio and Powell (1983) use *'organizational field'* to indicate a group of organizations that constitutes a focal environment where firms interact with each other. The organizational field may consist of competing firms (Hannan & Freeman, 1977), or a series of firms that interact with each other along supply chains (DiMaggio & Powell, 1983), or a circumscribed scope (i.e., a regional economy) (Galaskiewicz & Wasserman, 1989). Given the flexibility of the definition of this critical construct of *organizational field*, in this study, we define the scope of the organizational field, our research context, as countries.

Scott and Meyer (1994) analyzed two primary forces that contribute to the *isomorphic* process in an organizational field, namely an external force and an internal force. In the interactions between an organizational field and its surrounding business environment, external organizations may demonstrate different behavioral patterns or business practices from the ones of internal organizations. The differences function as an external force which consistently attempts to change or at least influence the internal organizations' behavioral patterns. This process is also termed as *de-institutionalization* (Kerr, Janda & Pitts, 2009; Westney, 1993). Gradually, this external force gains the responses from internal organizations. Influenced by behavioral differences, internal organizations form an internal force to validate, admit, learn, and adapt to the different business practices. This process is referred to as *dis-embedding* (Dacin et al., 1999). These two forces complement, intertwine and reinforce each other, leading to a new legitimate status. Adapting to the new legitimate status is critical for firms' long term survival and profitability (DiMaggio & Powell 1983; 1991). In this study, we argue that the presence of MNEs in a country functions as an external force which demonstrates CSR best practices to indigenous firms. This demonstration effect challenges the existing patterns of CSR practices among indigenous firms, resulting in consistent changes and adaptation among indigenous firms.

Corresponding to the two forces proposed by Scott and Meyer (1994), with the external force of MNEs' demonstration effect, indigenous firms as well as local governments face three types of *isomorphic* pressures, namely *coercive pressures, normative pressures* and *mimetic pressures*. *Coercive pressure* is usually imposed by governments through legal control, requiring companies to abide by rules and regulations (Meyer & Rowan 1977). Indeed, in this *isomorphic* process, governments, as unique organizations, are also influenced by the presence of foreign MNEs. Local governments also experience the process of *dis-embedding* through being exposed to and learning from MNEs' CSR best practices, resulting in revised regulations or rules to gain legitimacy and build new governmental image. *Normative pressures* are primarily introduced and reinforced by professionals (DiMaggio & Powell, 1983). Increased standardized education/professional certifications increase the mobility of skilled labor markets. If these professionals move from MNEs to indigenous firms, *best CSR practices* are more likely transferred and implemented in their new workplaces. *Mimetic pressures,* resulting from uncertainties in the business environment, pressure firms to imitate others' successful or perceived *best practices* (DiMaggio & Powell, 1983). Thus, similar to spillover effects that have long been discussed in the research stream of productivity and technological transformation (Oliver, 1997), the *best practices* of MNEs impose demonstration effects on indigenous firms either through interactions with these indigenous firms or simply through being observed by them (Eden, et al., 1997). Hereto we contend that the presence of MNEs imposes indirect influence on indigenous firms, impelling indigenous firms to get involved in CSR activities.

Based on the above arguments, we hypothesize that

***H1:*** *The presence of foreign MNEs in a country is positively related to its overall extent of involvement of CSR activities.*

***H2:*** *The presence of foreign MNEs in a country is positively related to the dynamics of the country's institutions*

Many scholars (e.g., La Porta, Lopez-de-Silanes, Shleifer & Vishny, 1998;

Whitley, 1992) have attempted to conceptualize and measure national level institutions. For instance, Whitley (1992, 1997, 1999) introduced National Business System (NBS), which is defined as “distinctive patterns of economic organization that vary in their degree and mode of authoritative coordination of economic activities, and in the organization of, and inter-connections between owners, managers, experts, and other employees” (Whitley, 1999: 33). Matten and Moon (2008: 407) have argued that “national differences in CSR can be explained by historically grown institutional frameworks that shape ‘national business system’ (Whitley, 1997)”. Studies have found some key institutions that can significantly influence organizational behaviors through institutional influences on firms’ stakeholders. These are the political, financial and labor institutions (Aguilera & Jackson, 2003; Campbell, 2007). Whitley (1999) added another important institutional dimension, namely a cultural dimension. Thus, Whitley’s NBS is comprehensive to reflect national institutions’ influence (Ioannou & Serafeim, 2012). In this study, we follow Whitley (1999) in characterizing national institutions into four dimensions.

Buckley and Casson (1976: 44) stated that ‘foreign investment itself is a mechanism for the transfer of social attitudes and social structures, so that similarities between nations not only influence, but are influenced by, foreign investment”, meaning the influence of the presence of MNEs is broad. “MNEs transfer capital, technology, and knowledge into new settings. They allow subsidiaries access to new markets, new resources, and new processes. Potentially, therefore, institutional competitiveness can be increased by the presence of multinational corporations and their subsidiaries.” (Kristensen & Morgan, 2007: 197). In some occasions, MNEs function as capital providers (Freeman et al., 2007), enriching local capital market. In addition, MNEs usually bring knowledge and advanced technologies (Kristensen &

Morgan, 2007), and provide better work conditions and better salaries, thus, MNEs are usually more attractive to job seekers, who intend to pursue the skills and knowledge that are especially welcomed to MNEs, resulting in changes in the local education system and labor market. Moreover, the presence of MNEs in a host country presents different operations, consistently exposing individuals of the host countries to the new operations and ideas. Over time, we argue that the exposure to different and new practices helps build individuals' mindsets of observing, learning and absorbing new ideas or operations. Collectively we term it as national culture, reflected in individuals' openness to new ideas. By following Whitley's (1992, 1997, 1999) NBS, we thus hypothesize:

**H2a:** *The presence of foreign MNEs in a country is positively related to the competitiveness of the country's institutions (legal and regulation system).*

**H2b:** *The presence of foreign MNEs in a country is positively related to a country's market-based financial system.*

**H2c:** *The presence of foreign MNEs in a country is positively related to a country's education level.*

**H2d:** *The presence of foreign MNEs in a country is positively related to a country's culture (i.e., openness to foreign ideas).*

Existing studies have found that national institutions influence firms' CSR-related behaviors (e.g., Ioannou & Serafeim, 2012). In integrating all the above arguments, we hypothesize:

**H3:** *The extent of the development of a country' institutions (i.e., political system, financial system, education and labor system, cultural system) partially mediate the relationship between the presence of foreign MNEs in a country and the country's overall CSR*

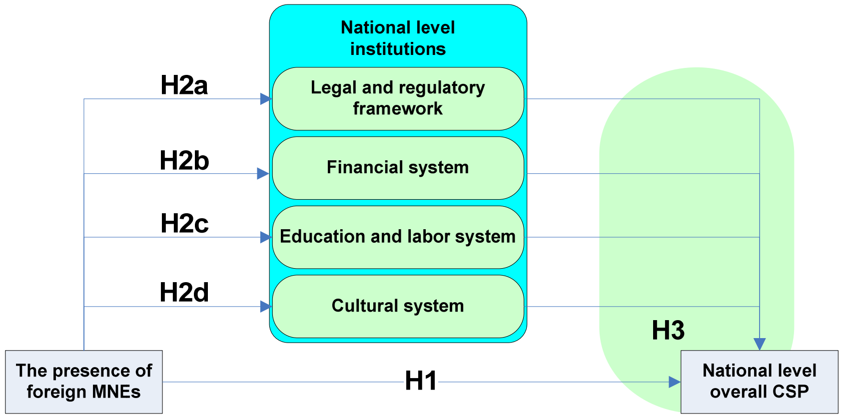


Figure 2.1 The conceptual model

## Methodology

### Data Source and Measures

We construct our dataset by combining information collected from *IMD World Competitiveness Yearbook* (2004-2014) and the World Bank. *The World Competitiveness Yearbook (WCY)* is an annual report published by the Swiss-based International Institute for Management Development (IMD). This yearbook is dedicated to measuring and comparing the competitiveness of nations. So far, 60 countries have been included. It has been published since 1989. The comparison is based on 333 criteria which measure different perspectives of competitiveness. For these criteria, 2/3 are based on hard statistical data (i.e., international or national statistical data), and the rest are based on survey data. Each year the IMD World Competitiveness Center conducts an Executive Survey to complement the hard statistical data. The survey is sent to executives from different industries for which the sample size is proportional to the GDP breakdown of the industry for each WCY country. Survey participants are asked to provide their perceptions about the country's competitiveness. Each survey question employs a 1 – 6 scale. The averaged rankings of survey questions are converted to a 0 – 10 scale for each country (for details please refer to http://www.imd.org/uupload/imd.website/wcc/Survey_Explanation.pdf).

There are four parts of information in our dataset. First, measures of a country's overall CSR as the dependent variable. Second, the primary independent variable which is the presence of MNEs, measured by the percentage of inward FDI over GDP for each country. Third, national institutions, reflected in four dimensions, namely political system, financial system, educational level and cultural system. Fourth, a set of control variables, such as exports and imports over GDP, and economic development level.

**Dependent Variables**

**National Overall CSR.** In previous studies, constructing a truly representative measure of CSR has been very challenging because of its feature of multidimensionality and the measurements of a single aspect of CSR (e.g., corporate philanthropy) can only provide limited information about the firm's social performance (Lydenberg, Marlin, & Strub, 1986; Wolfe & Aupperle, 1991). Waddock and Graves (1997: 304) emphasized the "need for a multidimensional measure applied across a wide range of industries and larger samples of companies". Given the difficulties of measuring firm level CSR, researchers often face further difficulties to measure country level CSR (e.g., Ioannou & Serafeim, 2012). In this study, we use the result of *IMD Annual Executive Survey* as the proxy of a country's overall CSR. This annual survey collects opinions from executives from those 60 countries. There are three items which can reflect a country's executives' overall comments about their corporate social responsibility. These three items are *ethical practices* (i.e., ethical practices implemented in companies), *social responsibility* (i.e., social responsibility of business leaders is high), and *health safety and environmental concerns* (i.e., health, safety and environmental concerns are adequately addressed by management). Since these three items are highly correlated (correlation coefficient > 0.8), we used the item of *ethical practice* in our analysis. One may question the validity of this measure because of the potential issue of self-report survey data. Indeed, when we constructed our dataset, we used a few years lag to allow the independent variable(s) to generate influence on the dependent variable. In so doing, we have avoided the self-report survey data issue because the value of the dependent variable (i.e., perceptions of those executives who participate in IMD Annual Executive Survey) is from a different group of executives in a different year (refer to the section of *Method and Results* for details).

**Independent variable**

**The presence of foreign MNEs.** We use a country's inward FDI over GDP as the proxy of the presence of foreign MNEs in a country. We attempt to explain the dynamics of a country's institutions and overall CSR based on the presence of foreign MNEs in the past. However, we do not know how far we need to trace a country's past FDI. Following Kwok and Tadesse (2006), we collected and calculated the previous decade average of a country's inward FDI over GDP as the presence of foreign MNEs for a focal country in a particular year. We argue that the decade average of the inward FDI can reflect the overall trend of foreign investment in a country. The data source of this variable is the World Development Database available from the World Bank.

## Mediate Variables

### Multiple Dimensions of National Institutions

**Legal and Regulatory System.** This variable measures whether the host legal and regulatory framework encourages competitiveness among firms. The data source of this variable is *IMD World Competitiveness Yearbook*.

**Financial System.** This variable measures whether a country's financial system is market oriented (i.e., capital is usually available for firms in the capital market. For instance, the financial system of the United States is market oriented) or credit oriented (i.e., capital is usually controlled by large banks and state agents. For instance, the financial system of Germany is credit oriented). We use information (i.e., the extent of availability of credit for business) collected from IMD WCY.

**Education and Labor System.** To measure a nation's education and labor system, we included the nation's overall availability of skilled labor. This information is from IMD Annual Survey. It is the overall comment from survey participants.

**Cultural environment.** We use a country's openness to foreign investment as the proxy of a country's cultural environment. This information is collected from IMD Annual Survey.

## Control Variables

To enhance the reliability of the findings, we control for some other variables suggested in the literature.

**Country category.** This is a dummy variable. If the focal country is a developed country, we code it as 1. Otherwise we code it as 0. We use the criteria provided by the World Bank. On July $1^{st}$ each year, the World Bank categorizes countries according to the estimation of each country's prior year's gross national income (GNI) per capita. For instance, as of 1st July 2013, the World Bank categorized countries by GNI per capita as follows: low income ($ 1,035 or less); lower middle income ($ 1,036 to $ 4,085); upper middle income ($ 4,086 to $ 12,615) and high income ($ 12,616 or more). Low and middle income countries are referred to as developing countries. We use the historical information of the categorization of countries (2004-2014) to code our sample as 1 for high income countries or 0 for low income and middle income countries.

**Internet users.** The number of internet users per 1,000 people. We use this variable to indicate the extent of communication between a country and the rest of the world. Through the internet, any initiatives or happenings in one corner of the world can be quickly transmitted to the rest of the world, and with the higher ratio of internet users, the communication is more active, so that firms in one country are more likely to be influenced by the rest of the world on some decision making such as the adoption of CSR initiatives.

**Pollution problem.** This variable measures the extent of the pollution problems influencing a country's economy. If a country's pollution problems influence or restrain its economy severely, the country would be forced to be aware of the issue and more likely to take measures such as encouraging firms to conduct CSR activities.

**Environment law.** This variable measures the extent to which a country's environment law hinder the competitiveness of business (the higher the value, the less a country's environment law hinders the competitiveness of business).

**Trade sum (% GDP).** This is a value of the sum of exports and imports over GDP, measuring the interactions of a country's firms with the rest of the world. The higher this value, the more likely a country's firms are influenced by the best practices conducted by their business partners from the other countries.

**Balance trade (% GDP).** This variable measures the ratio of the difference between a country's exports and imports over GDP, indicating the overall interactions between a country's indigenous firms and the firms from other countries. Arguably, exports require firms to adapt more rules and regulations with higher standards from the foreign customers and governments. Moreover, in order to win the trust from foreign customers, firms are eager to conduct CSR activities. Thus we also include this variable to check if exports and imports have different influences on a country's overall CSR.

In the following table 2.2, we list all variables and the corresponding measures.

**Table 2.2 Variable list**

| Type | Variable | Description |
|---|---|---|
| Dependent variable | National CSR | ethical practices are implemented in companies (IMD survey data) |
| Independent variable | The presence of foreign MNEs | inward direct investment (%)(/GDP) |
| Mediate variable | Legal and regulatory framework | the legal and regulatory framework encourages the competitiveness of enterprises (IMD survey data) |
| | Financial system | the extent of the availability of credit for business (IMD survey data) |
| | Education and labor system | skilled labor is readily available (IMD survey data) |
| | Cultural environment | the national culture is open to foreign ideas (IMD survey data) |
| Control variables | Country category | the focal country is a developed country (=1) or a developing country (=0) (World Bank) |
| | Internet users | number of internet users per 1000 people (source: computer industry almanac) |
| | Pollution problem | the extent of the pollution problems influencing a country's economy (IMD survey data) |
| | Environment law | the extent of a country's environment law hinders the competitiveness of business (IMD survey data) |
| | Trade sum (% GDP) | (exports+imports) / GDP |
| | Balance of trade (%) | (exports-imports) / GDP |

## Method and Results

In this study, we followed Baron and Kenny's (1986) four-step procedure to test mediation effects. We first construct a panel dataset, including independent variables, proposed mediation variables, control variables and the dependent variable. For each record, a 4 year lag is applied. We know it takes time for independent variables to influence the dependent variable, but we do not know how long it would be. Thus we built three datasets with a 3 year lag, a 4 year lag and a 5 year lag respectively. We got similar results based on the two different datasets with a 4 year lag and a 5 year lag, while we could not find significant results (especially for our hypothesis 2) based on the dataset with a 3 year lag, meaning approximately 4 or 5 years are needed to see the influence of the presence of foreign MNEs on national institutions and indigenous firms' involvement in CSR activities. Given the relatively small sample size (i.e., 49 records) of the dataset with a 5 year lag, we remained the dataset with a 4 year lag and conducted further analysis. The sample size of this dataset is 141 (countries with missing key information are excluded). The following table shows the correlation matrix.

**Table 2.3 Correlation matrix**

| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|---|---|---|---|---|---|---|---|---|---|---|
| 1. National CSR | 1 | | | | | | | | | |
| 2. The presence of MNEs | 0.29* | 1 | | | | | | | | |
| 3. Internet users | 0.73* | 0.26* | 1 | | | | | | | |
| 4. Pollution problem | 0.74* | 0.17* | 0.73* | 1 | | | | | | |
| 5. Environment law | 0.42* | 0.29* | 0.41* | 0.53* | 1 | | | | | |
| 6. Trade (% GDP) | 0.14* | 0.82* | 0.19* | 0.13 | 0.30* | 1 | | | | |
| 7. Trade balance (% GDP) | 0.29* | 0.17* | 0.07 | 0.1 | 0.07 | 0.11 | 1 | | | |
| 8. Legal system | 0.63* | 0.53* | 0.49* | 0.51* | 0.64* | 0.53* | -0.01 | 1 | | |
| 9. Education system | 0.41* | 0.20* | 0.32* | 0.32* | 0.42* | 0.18* | 0.24* | 0.39* | 1 | |
| 10. Financial system | 0.77* | 0.27* | 0.55* | 0.49* | 0.43* | 0.19* | 0.06 | 0.70* | 0.37* | 1 |
| 11. National culture | 0.39* | 0.49* | 0.15* | 0.17* | 0.28* | 0.42* | 0.07 | 0.64* | 0.31* | 0.48* |

n=141, *p<0.1

This correlation matrix shows some variables are highly correlated (e.g., the variable of the presence of foreign MNE and the variable of *trade sum % GDP*). To avoid the possible issue of multicollinearity, we conducted a test of Variance Inflation Factor (VIF). The following table 2.4 shows the result of the VIF test. The VIF value of the variable *law and regulation framework* is larger than 5 (refer to O'Brien, 2007). We then standardized this variable to avoid a possible multicollinearity issue.

**Table 2.4 VIF test**

| Variable | VIF | 1/VIF |
|---|---|---|
| Legal and regulatory framework | 5.2 | 0.19 |
| The presence of foreign MNEs | 3.66 | 0.27 |
| Trade (% GDP) | 3.61 | 0.27 |
| Internet users | 2.67 | 0.37 |
| Pollution problem | 2.66 | 0.37 |
| Financial system | 2.57 | 0.38 |
| National culture | 2.18 | 0.45 |
| Environment law | 2.11 | 0.47 |
| Education and labor system | 1.41 | 0.71 |
| Balance trade (% GDP) | 1.18 | 0.84 |
| mean VIF | 2.73 | |

Following Baron and Kenny's (1986) four-step procedure, we then conduct seven regression analyses to test each hypothesis. For each model, the significance of the coefficient is examined. The following table 2.5 shows the results.

**Table 2.5 Results**

| | | model 1 (x-> y) | model 2 (x-> m1) | model 3 (x-> m2) | model 4 (x-> m3) | model 5 (x-> m4) | model 6 (m -> y) | model 7 (x,m -> y) |
|---|---|---|---|---|---|---|---|---|
| | | hypothesis 1 | hypothesis 2a | hypothesis 2b | hypothesis 2c | hypothesis 2d | | hypothesis 3 |
| dependent variable | | national CSR | legal and regulatory framework | financial system | education and labor system | cultural environment | national CSR | national CSR |
| independent variable | the presence of MNEs | 0.10*** | 0.06* | 0.05* | 0 | 0.13*** | | 0.05** |
| mediate variable | legal and regulatory framework | | | | | | 0.21* | 0.21* |
| | financial system | | | | | | 0.47*** | 0.48*** |
| | education and labor system | | | | | | | |
| | cultural environment | | | | | | 0.09* | 0.08* |
| control variable | country category | -0.17 | -0.35 | 0.29 | 0.67* | -0.04 | -0.26 | -0.29+ |
| | internet users | 0.52*** | 0.28* | 0.25 | -0.13 | -0.07 | 0.37*** | 0.36*** |
| | pollution problem | 0.53*** | 0.17* | 0.18+ | 0 | 0.09 | 0.44*** | 0.46*** |
| | environment law | 0.02 | 0.42*** | -0.29+ | 0.43*** | 0.15 | -0.20** | -0.2** |
| | trade sum (% GDP) | -0.31** | 0.21* | -0.08 | 0.04 | 0 | -0.17** | -0.31*** |
| | trade balance (% GDP) | 0.02*** | -0.01* | 0 | 0.02** | 0 | 0.02*** | 0.03*** |
| | constant | 5.78 | -2.57 | -0.33 | 2.62 | -1.41 | 7.55 | 7.35 |
| | number of observations | 141 | 141 | 141 | 141 | 141 | 141 | 141 |
| | model significance | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 |
| | $R^2$ | 0.7049 | 0.6371 | 0.3697 | 0.2734 | 0.2716 | 0.8607 | 0.8676 |
| | $\Delta R^2$ | | | | | | | 0.1627 |

***P<0.001; **P<0.01; *P<0.05; +P<0.10

In model 1, we test the influence of the presence of foreign MNEs on a country's overall CSR. Model 2 throughout model 5 tests the influence of the presence of foreign MNEs on the proposed mediators, four institutional dimensions (i.e., legal and regulatory framework, financial system, education and labor system, and cultural environment) of a country's institutions. Model 6 tests the influence of proposed mediators (i.e., four dimensions of a nation's institutions) on the dependent variable (i.e., a nation's overall CSR). In all these models, control variables are included.

The result of model 1 shows that the presence of foreign MNEs does have a significant and positive influence on a country's overall CSR ($p<0.001$). Thus our hypothesis 1 is supported. Meanwhile, the control variable of country category is not significant but shows a negative sign, meaning that whether the focal country is a developed country or not does not influence the results in this model. The other five control variables (i.e., internet users, a country's pollution problem, environment law, trade sum percentage over GDP, and trade balance over GDP), except the focal country's environment law, are significant. The interesting finding is that the sign of the control variable "trade sum (% GDP)" is negative while the sign of the control variable "trade balance (% GDP)" is positive, meaning exports can contribute more to a country's overall CSR while imports do not. The possible reason is that exports may make indigenous firms face more challenges and need to struggle to meet higher standards set by foreign customers or need to maintain good CSR related reputations in order to sell products to foreign customers. The results of model 2 through model 5 show that only the institutional dimension of education and labor system is not significantly influenced by the presence of foreign MNEs ($p>0.1$), and the other three dimensions of a country's institutions are significantly influenced. Thus our hypothesis 2 is partially supported (i.e., hypotheses 2a, 2b and 2d are supported). The possible reason for the insignificant influence on education and labor system may be because in IMD's annual executive surveys, this value reflects executives' overall feeling or impression about the availability of skilled labor. This survey value might have been biased by those executives' overall experiences about the availability of qualified persons. Executives tend to in general feel the shortage of qualified persons while sometimes the true reason might be skill-shortage given the quickly updated requirements for desired skills. Because of the insignificant influence of the presence of MNEs on the institutional dimension of education and labor system, in model 6, we did not include this institutional dimension, and the result shows that the remaining three institutional dimensions all have significant influences on the focal country's overall CSR (legal and regulatory framework, $p<0.05$; financial system, $p<0.001$; cultural environment, $p<0.05$). Given the results of these regression models, we proceed to conduct the last regression analysis by including the presence of MNEs, the three institutional dimensions of legal and regulatory framework, financial system and cultural environment, and the control variables in the final model 7. The results show that the presence of MNEs is significant at a level of 0.01, the three institutional dimensions are significant at 0.05, 0.001 and 0.05 respectively. The control variable of country category shows significance at a 0.1 level with a negative sign, meaning that for developing countries, the presence of foreign MNEs is positively related to the countries' overall CSR while if the focal country is a developed country, this relationship tends to be negative, meaning that with more foreign direct investment in a developed country, the country's overall CSR tends to be reduced. This result is consistent with the fact that developed countries usually have higher levels of CSR, and with the increased foreign investment from the other countries, the superior CSR tends to be diluted by MNEs from the other less developed countries. The control variables of internet users and pollution problem both have significant influences ($p<0.001$) on a country's overall CSR. This means that the more people access the internet, the more exposure to the rest of the world and the more likely the country has a higher level of CSR involvement, and the more pollution problems in a country, the more likely the business in the country is aware of CSR issues and the more likely the business will take initiatives to conduct CSR activities. The control variable of environment law shows it is significant but with a negative sign, indicating the less the environment law hinders the competitiveness of business, the less likely the indigenous firms would conduct CSR activities. We noted that the coefficient of the independent variable, the presence of foreign MNEs, in model 7 is half of the one in model 1. According to Baron and Kenny (1986), we can conclude that our hypothesis 3 is partially supported: the positive relationship between the presence of foreign MNEs and a country's overall CSR involvement is partially mediated by the country's institutions (with one insignificant institutional dimension, education and labor system).

## Discussion, Limitation And Conclusion

This study has attempted to integrate the IB literature with the CSR literature, highlighting the effects of the presence of foreign MNEs on the dynamic host institutional environment and the joint influence of these two factors on the variation in overall national level CSR. We build our theoretical arguments on IB theories and institutional theory. This study is among the first few studies that examine a largely ignored relationship, namely the presence of MNEs not only is influenced by host institutions but also can conversely influence host institutions, and these two factors then jointly influence host countries' overall CSR. Thus, this study increases scholarly understanding of the influence of MNEs in CSR activities involvement in host countries.

The findings partially support our theoretical arguments that the presence of foreign MNEs can influence certain dimensions of host institutions. In this study, following Whitley's (1997, 1999) framework about national business systems, four dimensions of host countries' institutions are conceptualized and measured. These four dimensions are legal and regulatory framework, financial system, education and labor system, and cultural environment. The results show that the presence of foreign MNEs positively influences host countries' overall CSR, and three institutional dimensions (i.e., legal and regulatory framework, financial system and cultural environment) partially mediate this positive relationship between the presence of foreign MNEs and the host countries' overall CSR. This means that over time, the presence of MNEs in a host country enhances the advocacy of host institutions toward competitiveness among firms (reflected in the institutional dimension of legal and regulatory framework) and market oriented financial system (reflected in the institutional dimension of financial system). Further, the results also show that the presence of MNEs can increase the openness of individuals' attitudes toward new ideas in a country. This finding is consistent with what we predicted. However, contrary to our arguments about another institutional dimension of educational and labor system, the result did not show a significant influence of the presence of foreign MNEs on host countries' education and labor system. In addition, a country's intensity of import and export activities, reflected in the country's balance of trade (i.e., the difference between a country's exports and imports), has been found significant in influencing host countries' overall CSR, because the more active a country is involved in import and export activities, especially the more exports than imports, the more the country's firms are exposed to external best practices and face higher standards or requirement from their business partners, and the more likely the firms would learn and implement those best practices.

In this study, we used FDI as a proxy of the presence of foreign MNEs without examining the composition of those foreign MNEs. In future studies, this limitation can be minimized by carefully categorizing different types of foreign MNEs. The reason is that different types of MNEs (e.g., MNEs originated from developing countries versus MNEs originated from developed countries) may have different influences on host countries' indigenous firms. Nevertheless, this study is among the very first studies that explicitly focus on the role of MNEs in host business environments and their impact on national institutions and overall CSR. This study contributes both to the CSR literature and the IB literature. The findings of this study provide implications for policy makers and economic developers as well. To achieve a country's goals in terms of societal development, feasible policies which encourage FDI should be made and the appropriate institutions should be launched accordingly. It is in the nexus of this process, where scholars, practitioners and policy makers interact and can focus greater attention on how MNEs are critical in achieving desired goals. Indeed, Wiig and Kolstad (2010) have concluded that the absence of initial sound and well-designed institutions to restrict MNEs' CSR behaviors may lead to negative institutional influences from MNEs' investments. Therefore, it should be recognized that well-designed policies toward FDI and institutions are necessary to achieve better institutions and a better society as a whole.

One practical implication for business practitioners is about their location decisions and the negotiation process of their foreign investments. Involvement in CSR activities and gaining legitimacy are not cost free (e.g., Friedman, 1962).

Business practitioners can think about what kind of locations are most suitable for their short term and long term business goals, given their existing FDI or the size of the foreign MNE population and institutions in host business environments. In other words, the findings of this study can be incorporated into MNEs' location decision processes to facilitate their business goal achievement, because a better understanding of the business environment helps in negotiation processes to reach mutual benefits for MNEs and stakeholders in host business environments. The role of business has been increasingly recognized in solving these issues.

## IV. ESSAY 3: THE INFLUENCE OF MNES ON INDIGENOUS FIRMS' INVOLVEMENT IN VOLUNTARY CSR ACTIVITIES IN AN EMERGING MARKET – THE CHINESE CONTEXT

### Introduction

Corporate Social Responsibility (CSR) has been increasingly discussed by scholars (e.g., Campbell, 2007; Margolis & Walsh, 2003; Walsh, Weber & Margolis, 2003) and in media coverage (Campbell, 2007; Buhr & Grafstrom, 2004). Although consensus on the definition of CSR has not been fully established (e.g., Campbell, Eden & Miller, 2012), CSR is usually defined as corporations' discretionary activities with the purpose of increasing social welfare (Barnett, 2007). Since many corporate activities that further social welfare, such as medical leave and equal employment opportunity, are legally mandated (Barnett, 2007), in this study we join McWilliams and Siegel (2001) in defining CSR as firms' discretionary activities that go beyond compliance and enhance social welfare. In the last few decades, management and marketing scholars have attempted to establish business rationales for CSR and examined the relationships between firms' CSR activities and their gain in reputation and financial performance (e.g., Burke & Logsdon, 1996; Margolis & Walsh, 2003). Nevertheless, scholars have pointed out that "businesses and society are intertwined" (Wood, 1991: 695), thus business has to respond to certain *institutions* from society by engaging in appropriate business behaviors (Bovens, 1998; Brammer, Jackson & Matten, 2012; Campbell, 2007). *Institutions* are defined as formal rules or regulations and informal social beliefs, relations and constraints (North, 1990). Indeed, firms are increasingly expected by governments, non-governmental organizations (NGOs) and the public alike to "provide innovative solutions to deep-seated problems of human misery" (Margolis & Walsh, 2003: 268; Schultz & Wehmeier, 2010), "especially when those problems are juxtaposed to the wealth-creation capabilities of firms or to the ills that firms may have helped to create” (Margolis & Walsh, 2003: 270).

In the research stream of the interactions between institutions and firms’ involvement in CSR activities, existing studies have mainly focused on how institutions influence firm CSR behaviors. For instance, Campbell (2007) theoretically explored a set of institutional conditions that leads to firms’ CSR activities. Ioannou and Serafeim (2012) empirically investigated the impact of institutions on firm CSR activities across a sample of 42 countries at the national level. However, as Barley (2007) pointed out, since the 1960s, scholars have not paid systematic attention to how firms influence the institutions in which they are embedded, especially those institutions that are not economically related (Barley, 2007; Boddewyn, 1988). Further, we note that the effect of the presence of multinational enterprises (MNEs), as an increasingly expanding subset of firms in general across the globe, on the dynamics of institutions and CSR-related behaviors of indigenous firms in host business environments has not been highlighted either.

MNEs are embedded in different business environments and exposed to different institutions (Rodriguez, Siegel, Hillman & Eden, 2006). Sometimes, there are unavoidable inconsistencies between MNEs’ goals and the requirements of local institutions (Eden & Lenway, 2001). Given the multiple and complex institutions in which MNEs are embedded, the bilateral influences between MNEs and different institutions are complex (e.g., Kostova, 1999). Yet, scholarly studies of these bilateral influences are critical because the findings can provide insights for policy makers, practitioners and scholars, on the one hand, to launch better policies to better serve MNEs, and on the other hand to predict and judge the influence of the presence of MNEs on institutions, and the further influence on indigenous firms’ economic and non-economic behaviors (Wiig & Kolstad, 2010). However, the research on the role of business in society across countries is far from rich (Boddewyn, 1988). We note that for the lens on which we focus (i.e., MNEs, institutions and CSR activities) in this study, cross-country level studies are rare, and intra-country level studies are even rarer in the extant literature. Rather than conducting a country-level analysis, we go a step further to conduct an intra-country or regional level analysis. Specifically, we address how the presence of foreign MNEs influences a country's regional institutions and how these two factors influence indigenous firms' involvement in CSR-related behaviors within a country.

Theoretically, we build on international business (IB) theories and neo-institutional theory. We first argue that MNEs are embedded in complex institutional environments (i.e., institutions in home and host business environments at both country and intra-country levels), and face liability of foreignness (LOF), meaning costs caused by the unfamiliarity of the host business environment (i.e., *cultural, political, and economic differences*, and *the need for coordination across geographic distance, among other factors)* (Zaheer, 1995: 341). As one of their coping strategies, MNEs need to act in a *more socially responsible manner than other local firms in regard to CSR activities* to gain legitimacy. We second argue that at a regional level within a country, MNEs' overall *superior* CSR behaviors would directly and indirectly influence indigenous firms' engagement in CSR activities through institutions and indigenous firms' isomorphic processes, defined as the adoption of business practices that have been taken by other relevant organizations (Zuker, 1987). So that this process finally leads to overall improvement in terms of CSR practices in host regions.

This study attempts to combine the CSR literature and the IB literature, and is one of the very first few studies that highlight the effect of the presence of MNEs in boosting CSR at the intra-country level in an emerging market. Existing CSR studies mainly set western business environments as their research contexts (e.g., Carroll, 1999; Rivera, 2004). We posit our research questions in the context of China. China is a formidable emerging market that has experienced social transition and institutional improvement, characterized by stakeholder growth and maturing institutions with increased social expectations for firms (Zhao, Tan & Park, 2013). Thus, studies within the Chinese context are desirable given China's critical role in global economic development. Moreover, China's heterogeneity in economic development and institutional development at the regional level (Fan, Wang & Zhu, 2011) provides an ideal setting for our study.

The remainder of this paper is organized as follows. First, we conduct a literature review about the bilateral influences between firms and the institutional environments in which they are embedded. Second, we develop our hypotheses building on IB theories and neo-institutional theory. Third, we conduct an empirical investigation of our research questions. Fourth, we discuss the results. Finally, we conclude this study with our discussion of contributions and implications, limitations and future studies.

## Literature Review

In accordance with North's (1990) definition of institutions (i.e., formal rules and informal norms), the existing literature examines how institutions influence firms' CSR-related behaviors primarily from two aspects of institutional theory. One is institutions' feature as a regulatory force (i.e., formal rules), meaning rules and regulations used to regulate or constrain firms' behaviors (Lawrence & Morell, 1995;

Scott, 2001; Vredenburg & Westley, 1993). Another is institutions' feature as a normative force (i.e., informal norms), meaning self-generated standards or norms that guide firms' subsequent behaviors (Selznick, 1957; Suchman, 1995). Studies of this research stream are primarily at a country cluster level (e.g., European countries) and country level, focusing on political policies and legal processes, rules and regulations, and cultural norms in explaining firms' CSR-related behaviors (Clarkson, 1995; Freeman, 1984). In the following table 3.1, we enumerate some representative studies of this research stream to demonstrate how firms' CSR-related activities or performance are influenced by institutions at different levels.

## Table 3.1 Literature on institutional influences on firms' CSR

| Author(s) | Type of study | Unit of analysis | Context(s) | CSR activities | Finding |
|---|---|---|---|---|---|
| **Mattern & Moon (2008)** | conceptual study | country level | US vs. Europe | forms of CSR activities | examined how the different institutional systems between the US and Europe influence different types of CSR activities in these two areas over time |
| **Aguilera, Rupp, Williams & Ganapathi (2007)** | conceptual study | country level | N/A | oganizations' involvement of CSR initiatives | a multilevel theoretical model, explaining why firms increasingly initiate CSR activities, which potentially lead to positive social change |
| **Jackson & Apostolakou (2010)** | empirical study | country cluster level; sector level | Anglo-Saxon countries, Nordic countries, Central European countries, Latin countries (totally 16 Western European countries); high-impact industries, medium-to low-impact industries, mixed industries | multiple CSR dimensions from economic, environmental and social aspects | because of different institutional determinants of CSR, firms from the more liberal market economies of the Anglo-Saxon countries score higher on most dimensions of CSR than firms in the more coordinated market economies in Continental Europe |
| **Meek, Roberts & Gray (1995)** | empirical study | contry level | US, UK, and Continental Europe | information disclosures of three types of information (strategc, nonfinancial, financial) | the distinct national and regional influences across the US, UK and continental Europe on the disclosure of strategic, finanical and nonfinancial information. |
| **Langlois & Schlegelmilch (1990)** | empirical study | country level | US vs. European countries (UK, France and Germany) | adoption and contents of codes of ethics | significant differences between European firms and US firms in adopting and in content of codes of ethics |
| **Maignan (2001)** | empirical study | country level | US, France, Germany | consumers' response to socially responsible organizations | "national level institutions influence consumers' understanding of CSR in France, Germany and US. Specifically, French and German consumers pay more attention to firms' social responsibility, less to economic performance, while US consumers have the opposite approach to firms' social responsible and economic performance" |
| **Maignan & Ralston (2002)** | empirical study | country level | France, UK, Netherlands and US | disclosure of CSR activities on website | different cultural norms lead to different public perception of business regaring social responsibility in four countries |
| **Waldman et al (2006)** | empirical study | country level | 15 countries | managers' views on social responsibility | cultural dimensions (i.e., collectivism and power distance) predict managers' views on social responsibility across countries |
| **Ringov & Zollo (2007)** | empirical study | country level | 23 countries | firm social and environmental performance (measured by a firm's Intangible Value | cultural dimensions (i.e., power distance and masculinity) have negative influence on corporation social and environmental performance |
| **Chapple & Moon (2005)** | empirical study | country level | 7 Asian countries | website reporting of firm CSR activities | The variance of CSR reporting across the seven Asian countries can be better explained by factors of national business systems rather than national development stage. |
| **Smith, Adhikari & Tondkar (2005)** | empirical study | country level | Norway/Denmark vs. U | corporate social disclosure in annual reports | the way how the role of a firm and its stakeholder is defined in a country influences the extent and quality of corporate social disclosure in annual reports |
| **Husted & Allen (2006)** | empirical study | firm level | Mexico | firms' CSR compliance strategy | "institutional pressures, rather than strategic analysis of social issues and stakeholders, are guiding decision-making with respect to CSR." |
| **Brammer & Pavelin (2005)** | empirical study | country level | US vs. UK | corporate community contributions | cross-country differences between UK firms and US firms in the patterns of corporate community contributions |

There are also several studies that examine industrial level differences of institutional influence. For instance, Buehler and Shetty (1974) find that legislation is a primary driver of different CSR-related activities across industries. Van Tulder and Kolk (2001) found the effectiveness of certain institutions influences adoption of ethics codes in the sport industry. Jackson and Apostolakou (2010: 372) found that "CSR is more extensive in sectors where firms have a strong negative impact upon stakeholders and, thus, are more likely to adopt institutionalized forms of CSR".

In sum, we note that this literature mainly stresses the influence of broad national-level or industrial-level institutions on firms' CSR behaviors. Among these studies, only a few studies (e.g., Chapple & Moon, 2005; Husted & Allen, 2006) have set MNEs as research objects. Even f*ewer studies* have pinpointed that MNEs can influence the institutions of host business environments at both the country level and intra-country level, and both factors, namely the presence of MNEs and host institutions, can influence indigenous firms' business and/or non-business activities, albeit the process might be gradual. Among these very few studies, Brammer, Jackson and Matten (2012) pointed out that because of *the country-of-origin-effect* (Noorderhaven & Harzing, 2003), many western firms' CSR practices reflect western norms and values which widely differ from those of emerging market firms (Muthuri & Gilbert, 2010). This leaves room for institutional change in emerging markets due to the presence of foreign MNEs. Escobar and Vredenburg (2011) observe that a western oil company's social investments (e.g., building schools and hospitals) in Africa can change African countries' CSR-related institutions. Hence, the research need is to examine how the presence of MNEs influences host institutions and how these two factors further influence indigenous firms' CSR-related behaviors at an intra-country level? This is less known in the empirical literature. In the following section, we develop our theoretical arguments based on IB theories and neo-institutional theory.

## Theoretical Lenses And Hypotheses Development

### Base Argument - MNEs Outperform Indigenous Firms in Conducting CSR Activities

IB scholars have long discussed how MNEs' foreign affiliates face LOF (Hymer, 1976; Mezias, 2002; Nachum, 2003; Zaheer, 1995) because of the unfamiliarity of host business environments. To overcome LOF, MNEs may adjust the entry mode and avoid asset-specific investments (Eden & Miller, 2004; Kostova & Zaheer, 1999; Xu & Shenkar, 2002; Meyer & Thein, 2014). MNEs may joint venture with legitimate local actors (Lu & Xu, 2006) or adopt organizational structures that are similar to incumbents (Chan & Makino, 2007; Yiu & Makino, 2002). The purpose of these coping strategies is to enhance legitimacy, reduce public visibility and minimize the likelihood of being challenged. Besides these economic adaptation practices (Zhao, Park & Zhou, 2014), it is suggested that MNEs should also adopt social adaptation activities, such as CSR activities (Gardberg & Formbrun, 2006; Zhao, Park & Zhou, 2014) to help MNEs sustain operations in host countries. Using both economic and social adaptation activities, MNEs in host countries could significantly improve and change their image from that of solely profit gaining to that of cooperative in both economic growth and social welfare in the host country (Dunning, 1998; Luo, 2001). Therefore, CSR investments could be effective for MNEs when they seek to build legitimacy and complement their economic based practices in host business environments (Kostova, Roth & Dacin, 2008).

Moreover, foreign affiliates of MNEs are usually more visible (Christmann & Taylor 2001; Wheeler 1999) than those indigenous firms. Yet, host country stakeholders may lack sufficient information about these MNEs. Thus foreign affiliates of MNEs may be monitored with different, usually higher standards than those used for indigenous firms by the host government and the public in host countries, which exacerbates LOF that MNEs face in host countries (Eden & Miller, 2004; Zhao, Park & Zhou, 2014). Meanwhile, MNEs are embedded in multiple different institutions where they operate (Kostova, 1999; Xu & Shenkar, 2002; Meyer, Ding, Li & Zhang, 2014). IB scholars (Bartlett & Ghoshal, 1989; Prahalad & Doz, 1987; Kostova, 1999; Kostova & Roth, 2002; Kostova, Roth & Dacin, 2008; Westney, 1993) have long discussed the local responsiveness of MNEs (i.e., comply with local institutions in host countries to gain legitimacy) and global integration (i.e., conform to their global values). At the same time, MNEs are facing increased global pressures from organizations such as the United Nations and the Organization for Economic Co-operation and Development (OECD), which push MNEs to adopt standardized codes of conduct (Rodriguez, Siegel, Hillman & Eden, 2006). Given all these pressures, MNEs need to perform better in conducting CSR activities that should correspond to the prevailing institutions (Jackson & Apostolakou, 2010).

Admittedly, different types of MNEs (e.g., state-owned MNEs vs. non-state-owned MNEs) face different levels of institutional pressures and LOF, and likely perceive CSR differently. Thus, different types of MNEs may have different needs and adopt different strategies in determining CSR related activities to respond to LOF and institutional pressures. Meyer, Ding, Li and Zhang (2014), for instance, found state-owned MNEs face more complex institutional pressures in host countries than private MNEs. Campbell, Eden and Miller (2012) found that *foreign affiliates from more distant home countries are less willing and less capable of conducting CSR activities in host-countries.* Moreover, there are some MNEs (e.g., British Petroleum) that have behaved in socially irresponsible manners, such as deceiving customers and polluting the environment. However, many MNEs conduct socially responsible activities (Campbell, 2007; Muirhead et al., 2002). Therefore, we reach our base argument that despite the variances of antecedents and consequences of MNEs' CSR-related activities, generally MNEs behave in a more socially responsible manner than indigenous firms to avoid negative consequences (e.g., reputation deterioration, financial loss) in their host business environments, as well as to be in compliance with headquarters requirements.

**MNEs Influence Indigenous Firms Directly and Indirectly**

Building on the above argument that on balance MNEs outperform indigenous firms in terms of CSR-related practices, in the following section, we argue that seen through the lens of neo-institutional theory, the actual presence of MNEs across regions within a country will directly or indirectly influence indigenous firms' overall involvement in CSR activities. Institutional theory (DiMaggio & Powell 1983, 1991; Meyer & Rowan, 1977; Scott, 2001)**,** based on organizational sociology, has been one of the most dominant theoretical approaches used in the CSR literature to explain why firms are incented to behave in socially responsible ways (Bies, Bartunek, Fort & Zald, 2007; Gardberg & Fombrun, 2006; Marquis, Glynn, & Davis, 2007; Matten & Moon, 2008). The primary argument of this approach is that firms are embedded in and influenced by the business environment, focusing on *isomorphism* (Zucker, 1987: 443), a process of adaptation that is reinforced in the interactions among organizations within the focal environment. Institutional theorists define the relevant environment as the intermediate level between society as a whole and the organization as a single focus (Westney, 1993). DiMaggio and Powell (1983) use *'organizational field'* to indicate a group of organizations that constitutes a focal environment where firms interact with each other. The organizational field may consist of competing firms

(Hannan & Freeman, 1977), or a series of firms that interact with each other along supply chains (DiMaggio & Powell, 1983), or a circumscribed scope (i.e., a regional economy) (Galaskiewicz & Wasserman, 1989). Given the flexibility of the definition of this critical construct of *organizational field*, in this study, we define the organizational field in terms of regions within a country.

Scott and Meyer (1994) analyzed two primary forces that contribute to the isomorphic process in an organizational field. One force is from external organizations that demonstrate different behavioral patterns or business practices to attempt to shape the behavioral patterns of internal organizations. Another force is from internal organizations, which validate and admit the new business practices. These two forces complement each other. In this study, we argue that in a region within a country, the presence of MNEs functions as an external force to demonstrate CSR best practices to indigenous firms. This demonstration effect challenges the existing patterns of CSR practices. This process is called *de-institutionalization* (Kerr, Janda & Pitts, 2009; Westney, 1993). Correspondingly, indigenous firms learn and adapt to the challenges. This process is referred to as *dis-embedding* (Dacin et al., 1999). These two processes intertwine and reinforce each other, leading to a new legitimate status, which is critical for firms' long term survival and profitability (DiMaggio & Powell 1983; 1991).

Being consistent with the two forces proposed by Scott and Meyer (1994), given the external force of MNEs' demonstration effect, there are three types of *isomorphic* pressures faced by indigenous firms as well as local governments. Specifically, *mimetic pressures*, resulting from uncertainties in the business environment, pressure firms to imitate others' successful or perceived *best practices* (DiMaggio & Powell, 1983). Thus, similar to spillover effects that have long been discussed in the research stream of productivity and technological transformation (Oliver, 1997), the *best practices* of MNEs impose demonstration effects on indigenous firms either through the interactions with them or simply through being observed by them (Eden, et al., 1997). *Normative pressures* are primarily introduced and reinforced by professionals (DiMaggio & Powell, 1983). The increased standardized education/professional certifications increased the mobility of skilled labor markets. If these professionals move from MNEs to indigenous firms, *best CSR practices* are more likely transferred and implemented in their new workplaces. *Coercive pressure* is usually imposed by governments through legal control, requiring companies to abide by the rules and regulations (Meyer & Rowan 1977). Indeed, in this *isomorphic* process, governments, as unique organizations, are also influenced by the presence of foreign MNEs. The local governments also experience the process of *dis-embedding* through being exposed to and learning from MNEs' CSR best practices, resulting in revised regulations or rules to gain legitimacy and build new governmental image.

Thus, in general, the presence of foreign MNEs influences indigenous firms' CSR-related activities directly and indirectly through influenced host institutions. Since this study focuses on intra-country level analysis, building on the above theoretical argument, we hypothesize:

**H1:** *The presence of foreign MNEs in a region within a country is positively related to indigenous firms' voluntary involvement in CSR-related activities*

**H2:** *The presence of foreign MNEs in a region is positively related to the extent of the development of regional CSR-related institutions within a country*

**H3:** *The extent of the development of a region's CSR-related institutions partially mediates the relationship between the presence of foreign MNEs in a region and the indigenous firms' voluntary involvement in CSR-related activities within a country*

## Methodology

### CSR in China

Compared with Western countries where individual citizens and civil society take a significant role in pushing a CSR agenda, China does not have a strong voice from its civil society and citizens, yet the CSR agenda in China is still evolving (Zhou, 2006). In the late 1990s, MNEs in the consumer goods and retail sectors introduced CSR to China by auditing Chinese factories. In this stage, CSR requirements were initially imposed on Chinese firms by MNEs, and the Chinese government had little awareness about CSR (Zhou, 2006). In the early 2000s, Chinese academics and some governmental and non-governmental organizations began to pay close attention to CSR which was further introduced to China. In this stage, Chinese government's attitude toward CSR was *wait-and-see* because of the unclear picture about the cost caused by CSR activities. Since the mid 2000s, CSR has been increasingly studied by Chinese government departments, industrial associations and Chinese firms. At this stage, Chinese governments perceive CSR as an approach to increase Chinese firms' competitiveness rather than a burden imposed by external forces (Zhou, 2006). Therefore, since the late 1990s, with the clearly evolved Chinese government's attitude toward CSR, and being consistently exposed to MNEs' CSR practices, Chinese indigenous firms have been increasingly engaged in CSR activities (Wong, 2008; Zhou, 2006).

## Data Source and Measures

### Dependent variable

#### Chinese firms' voluntary involvement in CSR activities

In line with the definition of CSR (i.e., firms' behaviors that go beyond compliance and appear to enhance social welfare), we collect firms' CSR reporting information from www.csr-china.net (refer to Appendix 1 for detailed information) as the indicator of firms' CSR activities. We collected the records of reports from 2005 to 2010. The reason we collected reporting information from 2005 is that in the National People's congress of 2005, the Chinese government issued *the harmonious society policy*, intending to change China's focus of development from emphasizing sole economic growth to both economic growth and societal harmony. With this initiative, Chinese firms are expected to seek and implement best CSR practices, so more Chinese firms' involvement of CSR activities is anticipated. The reason we collected the data until 2010 is related to the availability of another important measure of Chinese regional institutions, *FanGang marketization index of Chinese provinces* (Fan, Wang & Zhu, 2011) (refer to Appendix 2 for details). This institutional index is available until 2009. Following some other studies that set China as the research context (e.g., Marquis & Qian, 2014) and based on the fact that China has experienced *unique fast-moving institutions* (Roland, 2004), we use our independent variables to explain dependent variable(s) with a one-year lag. We collected CSR reporting information until 2010.

In China, both stock exchanges from mainland China (i.e., Shanghai Stock Exchange and Shenzhen Stock Exchange) have issued sustainability reporting guidelines for listed companies. According to the Research and Corporate Development Department (2011), the CSR reporting regime for Chinese indigenous companies is transferring from a voluntary basis to a mandatory basis. In the transition period, all state-owned enterprises from Mainland China are required to issue CSR reports from 2012. Thus, all records we collected, according to our definition of CSR, can be considered CSR activities. Because we focus on Chinese domestic firms' CSR activities, we excluded records from foreign firms' Chinese subsidiaries and from firms that have headquarters in Macao, Hong Kong and Taiwan. We therefore collected 2,038 reports between 2005 and 2010 from Chinese firms. We grouped the records by the location of the firm's headquarters. Table 3.2 shows the distribution of the reports over years across different provinces. For each group, we examine the constituents of the firms in terms of industry, ownership type (i.e., State-owned enterprise (SOE) and non-SOE), size, domestic MNEs and non-MNEs.

**Table 3.2 The composition of reports across regions over years**

| Region \|Year | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | total number of reporting firms |
|---|---|---|---|---|---|---|---|
| Anhui | | 1 | | 14 | 14 | 18 | 47 |
| Beijing | 14 | 21 | 30 | 101 | 110 | 136 | 412 |
| Chongqing | | 1 | | 5 | 5 | 10 | 21 |
| Fujian | | 1 | 18 | 37 | 37 | 50 | 143 |
| Gansu | | | | | | 3 | 3 |
| Guangdong | 7 | 12 | 17 | 74 | 74 | 76 | 260 |
| Guangxi | 1 | 2 | 1 | 10 | 10 | 10 | 34 |
| Guizhou | | | | | 1 | 2 | 3 |
| Hainan | | 1 | | 3 | 3 | 3 | 10 |
| Hebei | | 1 | 1 | 10 | 10 | 10 | 32 |
| Heilongjiang | | | | 2 | 2 | 2 | 6 |
| Henan | | | | 13 | 13 | 20 | 46 |
| Hubei | 2 | 1 | 1 | 16 | 16 | 16 | 52 |
| Hunan | | | 1 | 8 | 10 | 10 | 29 |
| Jiangsu | 2 | 2 | | 32 | 42 | 55 | 133 |
| Jiangxi | | | | 7 | 7 | 7 | 21 |
| Jilin | | | | 16 | 16 | 16 | 48 |
| Liaoning | | 2 | 2 | 11 | 11 | 15 | 41 |
| Neimenggu | | | | 1 | 3 | 3 | 7 |
| Ningxia | | | 2 | 2 | 3 | 3 | 10 |
| Qinghai | | | | 4 | 4 | 4 | 12 |
| Shaanxi | | 1 | 1 | 5 | 5 | 8 | 20 |
| Shandong | 1 | 1 | 2 | 26 | 16 | 20 | 66 |
| Shanghai | 10 | 10 | 12 | 56 | 59 | 86 | 233 |
| Shanxi | | | | 14 | 14 | 14 | 42 |
| Sichuan | | 1 | | 17 | 17 | 17 | 52 |
| Tianjing | | | | 13 | 13 | 13 | 39 |
| Tibet | | | | | 1 | | 1 |
| Xinjiang | | 1 | | 4 | 7 | 7 | 19 |
| Yunnan | | 2 | 1 | 14 | 14 | 14 | 45 |
| Zhejiang | 2 | 3 | 6 | 40 | 45 | 55 | 151 |
| total number of reporting firms | 39 | 64 | 95 | 555 | 582 | 703 | 2038 |
| number of provinces with reporting firms | 8 | 18 | 14 | 28 | 30 | 30 | |

## Independent Variables

**China's regional institutions.** We used parts of *FanGang marketization index of Chinese provinces* (Fan, Wang & Zhu, 2011) as Chinese CSR-related institutions at the provincial level. We carefully chose four dimensions that are closely related to CSR evolution in China. These four dimensions are, first, the development of intermediary organizations (e.g., industrial association) and legal environment; second, the degree of help for firms from industrial associations; third, protection of consumers' rights and interests; fourth, protection of producers' rights and interests. We name this subset of the index as FanGang index. However, the fourth one is highly correlated with the first one, thus in the subsequent analysis, we excluded the fourth dimension.

**The presence of foreign MNEs.** We collected regional inward Foreign Direct Investment (FDI) amounts from the Chinese Provincial Statistical Year Book (2005 – 2010), which contains foreign direct investment (FDI) information from 2004 to 2009, as the proxy of the presence of foreign MNEs. To make this variable comparable across different provinces, we calculated the ratio of FDI amount to provincial GDP.

**Control Variables**

In this study, we included some regional level control variables and some firm specific information such as industrial category and customer type. We discuss these variables below.

**Regional level control variables**

**Provincial economic development level.** This variable is measured with *provincial GDP per capita.* The information is collected from the *Chinese Statistics Yearbook.* Fan Gang and his colleagues (2011) contended that there might be a correlation between a region's economic development and its institutional level. Thus the more economically developed a province, the sounder the institutions it might have, and the more Chinese firms may be engaged in CSR activities because of institutional pressures or being voluntarily involved to avoid possible punishment.

**Exposure to international markets**. This variable is measured with *the ratio of the amount of provincial exports and imports to provincial GDP*. This amount is a critical indicator of firms' exposure to external organizational practices and global CSR-related institutions. The higher this value, the more likely more firms will become involved in CSR activities in a province.

**The support of regional social organizations.** Social organizations have been taking an important role in providing firms with guidance and disseminating best organizational practices. Firms with the same affiliations of these kinds of organizations will also influence each other. This information has been included and measured in *the FanGang index*. We use this dimension, namely the degree of help for firms from industrial associations as a proxy of the support for regional social organizations.

**Regional education level.** The higher the education level in a region, the more awareness of CSR activities among citizens and the more public pressure will be imposed on firms, resulting in a higher likelihood of firms' involvement of CSR activities. We use the *illiteracy rate* as the measurement of this variable. We collected this information from *China Statistics Yearbook*.

**Communication level.** We use *internet penetration rate*, namely *the ratio of the number of regional internet users to the regional population* as the proxy of provincial communication level. With more internet access, people in a region are more likely to be exposed to media coverage and are more likely to increase their awareness of firms' CSR best practices. As a consequence, they may impose more pressure on firms in a region.

**Firm specific control variables**

**Industrial category.** Previous studies (Buehler & Shetty, 1974; Van Tulder & Kolk, 2001; Jackson & Apostolakou, 2010) have shown that industrial variances in firms' involvement of CSR activities emerged from variant industrial regulation environments. In this study, we categorize the industries that each firm belongs to into two broad categories, namely highly regulated and non-regulated. We then convert this firm level information into provincial level information by calculating the percentage of highly regulated firms to the total number of reporting firms in a certain province.

**Firms' ownership type**. We distinguish state-owned firms and non-state-owned firms. Chinese state-owned firms have long been discussed in the literature (e.g., Meyer, Ding, Li & Zhang, 2014). Chinese state-owned firms "may not be profit-maximisers, or may be maximizing subject to government-led institutional influences" (Buckley, Clegg, Cross, Liu, Voss & Zheng, 2007: 510). Given the Chinese governments' increased desire of encouraging CSR activities, the role model effects from Chinese state-owned firms are naturally expected from Chinese governments. Thus, Chinese state-owned firms are more likely to initiate CSR activities. We aggregate this firm level characteristic to the provincial level by calculating the percentage of the number of state-owned firms to total number of reporting Chinese firms.

**Firm size**. Larger firms are more visible and their social welfare activities are more suspect to stakeholders such as customers, the media and government agencies with higher standards (Arora & Cason 1996; King & Lenox 2000). Thus, they are more likely to participate in CSR activities to signal their compliance. We distinguish large firms (annual sales larger than 9.3 billion RMB) versus medium and small size firms (annual sales less than 9.3 billion RMB). We aggregate this firm level characteristic to the provincial level by calculating the percentage of the number of large firms to the total number of firms.

**Stock market participation**. In order to be listed on any stock exchange, firms need to meet the requirements established by those stock exchanges. Because of local governments and global institutional influences, stock exchanges have been increasing the criteria for entrance, including CSR requirements. In addition, listed firms are more visible, being monitored by increasingly critical stakeholders.

Therefore, listed firms are more likely to get involved in CSR activities to avoid negative consequences. We aggregate this firm level characteristic to the provincial level by calculating the percentage of the listed firms to total number of reporting firms in a province.

**Customer type**. Firms' customer base may be individuals or other firms. We distinguish between massive customers (i.e., individual customers) and non-massive customers (i.e., firm customers). Massive customers are large in quantity but small in revenue contribution by each individual customer to the focal firm. The converse applies to non-massive customers. Firms relying on massive customers have greater incentive to seek and benefit from legitimacy (Meyer & Rowan, 1991), thus they are more willing to become involved in CSR activities. Firms with non-massive customers are less motivated to gain legitimacy because they can maintain or reach more customers through such means as increasing economy of scale and reducing price. Therefore, these firms are less concerned about the involvement of CSR activities. We aggregate this firm level characteristic to the provincial level by calculating the percentage of firms with massive customers to total number of reporting firms in a province.

**The presence of Chinese domestic MNEs.** We calculate the percentage of the number of Chinese domestic MNEs which filed CSR reports to the total number of Chinese domestic firms in a province as the indicator of the presence of Chinese domestic MNEs. Chinese MNEs are usually leading firms that have demonstration effects on the other domestic firms. We include this control variable to test if this demonstration effect exists at the provincial level.

In sum, all variables and the corresponding measurements are summarized and listed in the following table 3.3. Finally, we obtained totally 128 observations over the six years (2005-2010).

**Table 3.3. Variables and the corresponding measures**

| | |
|---|---|
| **Dependent variable** | |
| The ratio of the number of firms with CSR reports to the total number of indigenous firms in a region (unit 10,000) in a certain year | number of firms that reported CSR reports (www.csr-china.net) / total number of domestic firms in a region (China provincial statistic year book, unit 10,000) |
| **Independent variable** | |
| Chinese regional CSR-related institutions | Fangang index: The development of intermediary organizations and legal environment, and the protection of consumers' rights and interests |
| Regional presence of foreign MNEs (regional FDI) | Chinese regional FDIs (China statistic yearbook)/regional GDP |
| **Control variables** | |
| industry | Dummy variable: firms belong to highly regulated industry or non-highly regulated industry |
| provincial economic development level | GDP per capita – China statistic yearbook |
| exposure to international market | the sum of exports and imports amount – China statistic yearbook |
| the support of regional social organizations | One dimension of Fangang index - *The degree of help for firms from industrial associations* |
| regional education level | illiterate rate (China statistic year book) |
| regional communication level | internet penetration rate (China statistic year book) |
| the presence of Chinese MNEs | the percentage of the number of Chinese reporting MNEs to total number of domestic firms in a region |
| firms' ownership type | a dummy variable: State owned or non-state-owned |
| firm size | a dummy variable: Large or medium and small |
| stock market participation | a dummy variable: Listed company or non-listed company |
| customer type | a dummy variable: massive customer oriented or not |

## Method and Results

The following table 3.4 shows the correlation matrix for all variables.

**Table 3.4. Intercorrelations of study variables**

| variables | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1. regional FDI (Ratio to GDP) | 1 | | | | | | | | | | | | |
| 2. regional CSR-related institutions | 0.5718* | 1 | | | | | | | | | | | |
| 3. Chinese MNE (%) | 0.1621 | 0.2770* | 1 | | | | | | | | | | |
| 4. listed firms (%) | 0.2013* | 0.3211* | 0.9049* | 1 | | | | | | | | | |
| 5. customer type (%) | 0.2333* | 0.3331* | 0.8648* | 0.9722* | 1 | | | | | | | | |
| 6. Chinese SOE (%) | 0.2012* | 0.3042* | 0.9335* | 0.9500* | 0.9224* | 1 | | | | | | | |
| 7. Size (large or middle&small %) | 0.1529 | 0.2576* | 0.9616* | 0.8871* | 0.8421* | 0.9641* | 1 | | | | | | |
| 8. GDP per capita | 0.5280* | 0.7876* | 0.3237* | 0.3211* | 0.3087* | 0.3377* | 0.3032* | 1 | | | | | |
| 9. internet penetration rate | 0.5889* | 0.7957* | 0.3828* | 0.4225* | 0.4151* | 0.4124* | 0.3593* | 0.8441* | 1 | | | | |
| 10. illiterate rate | -0.2652* | -0.4519* | -0.148 | -0.1405 | -0.1436 | -0.1713 | -0.1596 | -0.4733* | -0.4423* | 1 | | | |
| 11. regional import&export amout/GDP | 0.4803* | 0.6411* | 0.3401* | 0.3023* | 0.3301* | 0.3295* | 0.3118* | 0.7693* | 0.5927* | -0.3509* | 1 | | |
| 12. support of regional social organizations | 0.2144* | 0.4283* | 0.115 | 0.1302 | 0.125 | 0.1542 | 0.1307 | 0.5582* | 0.5082* | -0.2228* | 0.4793* | 1 | |
| 13. industry (%) | -0.2582* | -0.2837* | -0.0653 | -0.0642 | -0.1482 | -0.0514 | -0.0363 | -0.1196 | -0.1107 | 0.1986* | -0.2518* | -0.0242 | 1 |

n=128; * p<.05

According to above correlation table, all control variables aggregated from firm characteristics (i.e., *the presence of Chinese MNEs*, *listed firms, customer type, Chinese SOE, and firm size*) are highly correlated, meaning that the composition of those firms that report CSR reports are similar across different provinces in terms of the proportion of Chinese MNEs, listed firms, large and state-owned firms, and customer type. We retained the variable of *the presence of Chinese domestic MNE,* while ignored the other firm level variables from the rest of the analysis. The other two variables, *GDP per capita* and *internet penetration rate* are both highly correlated with the primary independent variable *regional CSR-related institutions,* thus we excluded these two variables from the rest of the analysis as well. In this case, the variable of *regional import/export amount per GDP* can be retained, which is highly correlated with *GDP per capita*.

We followed Baron and Kenny (1986) who proposed a four step procedure to test the mediation effect. Thus several regression analyses were conducted and in each step, the significance of the coefficient is examined. The following table 3.5 shows the results.

**Table 3.5. Results**

| | Model 1(x->y) | | Model 2 (x-m) | | Model 3 (m->y) | | Model 4 (x,m->y) | |
|---|---|---|---|---|---|---|---|---|
| Dependent variabl | Indigenous firms' involvement in CSR reporting (y) | | Regional institutions (m) | | Indigenous firms' involvement in CSR reporting (y) | | Indigenous firms' involvement in CSR reporting (y) | |
| | Coefficient | p value | Coefficient | p value | Coefficient | p value | Coefficient | p value |
| Presence of MNEs (x) | 0.351 | 0.000*** | 0.269 | 0.000*** | | | 0.306 | 0.000*** |
| Regional institutions (m) | | | | | 0.322 | 0.003** | 0.163 | 0.033** |
| Presence of Chinese MNEs (%) | 0.231 | 0.004** | 0.074 | 0.266 | 0.206 | 0.015** | 0.219 | 0.007*** |
| Regional education level | 2.537 | 0.553 | -11.181 | 0.002** | 4.584 | 0.328 | 4.369 | 0.324 |
| Exposure to international markets | -0.826 | 0.035** | 1.181 | 0.000*** | -0.713 | 0.093* | -1.02 | 0.013** |
| Support of regional social organizations | 0.233 | 0.009*** | 0.176 | 0.019** | 0.173 | 0.071* | 0.204 | 0.025** |
| Industrial category | 1.697 | 0.022** | -0.778 | 0.207 | 1.557 | 0.046** | 1.824 | 0.014** |
| n | 128 | | 128 | | 128 | | 128 | |
| $R^2$ | 0.266 | | 0.571 | | 0.187 | | 0.311 | |

***p<0.01; **p<0.05; *p<0.1

In model 1, we test the significant influence of the independent variable (i.e., *the presence of foreign MNEs)* on the dependent variable (i.e., *indigenous firms' involvement in voluntary CSR-related activities*), thus we included the independent variable and control variables in the regression analysis. In model 2, we test the significant influence of the independent variable on the proposed mediator (i.e., *regional CSR-related institutions*). In model 3, we test the significant influence of the proposed mediator on the dependent variable. The result shows that in model 1, the influence of *the presence of foreign MNEs* on *indigenous firms' involvement of CSR-related activities* is significant ($p<0.01$). Thus, our hypothesis 1 is supported. The result of model 2 shows that *the presence of foreign MNEs* is significantly related to *the regional CSR-related institutions* ($p<0.01$). Thus, our hypothesis 2 is supported. The result of model 3 shows that *regional CSR-related institutions* are positively related to *indigenous firms' involvement of CSR-related activities* ($p<0.01$).

Since the above all three models have significant results, according to Baron and Kenny (1986), we can proceed to test model 4 by including both the independent variable and proposed mediator in the analysis. The result shows that both *the presence of foreign MNEs* ($p<0.01$) and *regional CSR-related institutions* are significant ($p<0.05$). This result indicates that both the independent variable ($p<0.01$) and proposed mediator ($p<0.05$) are significant, and the coefficient of the presence of foreign MNEs in model 4 is less than the one in model 1. Therefore, according to Baron and Kenny (1986), we can conclude that the proposed mediator, *regional CSR-related institutions* partially mediate the predictive effect of the presence of foreign MNEs on indigenous firms' CSR activities involvement in a region. Thus, our hypothesis 3 is supported. The results also show that four control variables have significant effect on Chinese indigenous firms' CSR reporting involvement while only one control variable does not have influence. These four control variables are *Chinese MNEs' involvement of CSR reporting* ($p<0.01$), *the intensity of provincial import and export activities* ($p<0.05$), *regional social organizations' support* ($p<0.05$) and *industrial influence* ($p<0.05$). *The provincial illiteracy rate* has no effect on the involvement of Chinese domestic firms' CSR reporting activities. Therefore, the results show that our three hypotheses are all supported.

## Discussion, Limitation And Conclusion

This study has attempted to integrate the IB literature with the CSR literature, highlighting the effects of the presence of foreign MNEs on the dynamic of host institutional environment and the joint influence of these two factors on boosting indigenous firms' involvement of CSR-related activities, namely CSR reporting in an emerging market at an intra-country level. We build our theoretical arguments on IB theories and neo-institutional theory. We posit our research questions in the context of China. In so doing, we joined very few other scholars in extending the CSR literature to emerging markets. This study is among the very first few studies that examine the largely ignored relationship, namely the presence of MNEs not only is influenced by the host institutions but also can conversely influence host institutions, and these two factors then jointly influence indigenous firms' involvement in CSR activities. Thus, this study increases our scholarly understanding of the influence of MNEs in boosting firms' involvement of CSR activities, especially in an emerging market context.

The findings largely support our theoretical arguments that the presence of foreign MNEs also influences host institutions and positively influences local firms' involvement in CSR-related activities. Indeed, the host institutions partially mediate the positive relationship between the presence of foreign MNEs and indigenous firms'

CSR involvement in host business environments. The findings also show that Chinese MNEs have similar demonstration effects as do their foreign counterparts. This might be because Chinese MNEs often act as Chinese governments' representatives and they are expected to take the leadership in Chinese governments' desired activities (e.g., Buckley, et al., 2007; Meyer, Ding, Li & Zhang, 2014). Thus, given the Chinese government's increased awareness of firms' CSR-activities and desire to build a harmonious society, it is not surprising that Chinese MNEs are found to have a leading role in CSR-relate activities. A region's intensity of import and export activities, reflected in the regional import and export amount, has also been found to be significant in influencing local firms' involvement in CSR-related activities, because the more active a region is involved in import and export activities, the more the region's firms are exposed to external best practices and global institutions, and the more likely to learn from and implement those best practices. In addition, the support of regional social organizations is found to have a positive effect in boosting local firms' involvement in CSR-related activities. Similar to the previous finding by Jackson and Apostolakou (2010), industries to which firms belong have significant influence on firms' CSR-related behaviors. This might be due to varying industrial level regulations, which have different levels of restrictions on firms' CSR-related practices. *Regional education level*, measured by *Regional illiteracy rate* was not found to be significant. This finding is not surprising because, as we mentioned earlier, Chinese citizens and civil society are usually weak in voicing social issues although the CSR agenda in China has evolved in recent years (Zhou, 2006). Illiterate people in China may have even weaker voice because they are becoming a minority given China's quickly reduced illiteracy rate from 34% in 1964 to 4% in 2010 (US-China today, 2012). Indeed, this finding indirectly indicates China's education level has increased across regions, which leads to insignificant influence of illiteracy rate on CSR activities within China.

In this study, we encountered some limitations. First, although we did incorporate a brief industrial category (i.e., highly regulated industries vs. non-highly regulated industries), we could not incorporate detailed industrial level information which can be done in future research. The specificity of particular industrial sectors may significantly influence CSR activities. For example, so called “clean” industries (wind power generation) versus “dirty industries” (coal) may have highly differentiated CSR activities. Second, although we collected information on the number of CSR-reports we did not incorporate the quality of those reports into our study. Correspondingly, in future studies, the quality of Chinese firms’ CSR reports could be examined for thoroughness in reporting in the studies. Third, we used FDI as a proxy for the presence of foreign MNEs without examining the composition of those foreign MNEs. Thus in future studies, this limitation can be minimized by carefully categorizing different types of foreign MNEs. Fourth, we set Chinese *provinces* as the arbitrary boundary of the organizational field. The primary reason is that Chinese regional institutions are at the provincial level, so that we may have ignored some effects that may be expanded across provincial boundaries (e.g., the demonstration effects of some large MNEs and Chinese SOEs in China). Last but not least, we aggregated firm level information to provincial level, which may unavoidably lose some important firm level information. This limitation can be solved in the future research by using an advanced analysis method (e.g., conditional logistic model which can include firm level information and regional level information) when more information is available and collected. Nevertheless, this study is among the very first of its kind to explicitly focus on the role of MNEs in host business environments and their impact on

CSR–related institutions and domestic firms' CSR-related behaviors. We carefully conducted an analysis of the effects of foreign MNEs on local institutions at an intra-country level. Thus we believe this study contributes both to the CSR literature and the IB literature. Finally, although we set China as the research context, the methodology and approach we used in this study can be transferred to the other emerging markets or developed countries.

The findings of this study provide implications for policy makers and economic developers as well. To achieve a region's goals in terms of societal development, feasible policies which encourage FDI should be made and the appropriate CSR-related institutions should be launched accordingly. It is in the nexus of this process, where scholars, practitioners and policy makers interact and can focus greater attention on how MNEs are critical in achieving desired goals. Indeed, Wiig and Kolstad (2010) have warned us with an in-depth case study of multinational oil companies' CSR practices in a resource rich country, namely Angola, that the absence of initial sound and well-designed institutions to restrict MNEs' CSR behaviors may lead to negative institutional influences from MNEs' investments. Therefore, it should be recognized that well-designed policies toward FDI and institutions are necessary to achieve better institutions and a better society as a whole. One practical implication for business practitioners is about their location decisions and the negotiation process of their foreign investments. CSR activities involvement and gaining legitimacy is not cost free (e.g., Friedman, 1962). Business practitioners can think about what kind of locations, not only at the country level but also at the intra-country level, are most suitable for their short term and long term business goals, given their existing FDI or their size of foreign MNE population and institutions in host business environments. In other words, the findings of this study can be incorporated into MNEs' location decision processes to facilitate their business goal achievement, because a better understanding of the business environment helps in negotiation processes to reach mutual benefits for MNEs and stakeholders in host business environments. Moreover, the findings of this study are especially important to contemporary China, because China is facing severe social and environmental challenges (e.g., water scarcity, air pollution, food safety) that have to be solved effectively to maintain its sustainable development. The role of business has been increasingly recognized in solving these issues. In this study, we consider firms' CSR reporting activities the indicator of firms' CSR behaviors. In fact, in China, the scope of CSR activities can be much broader and firms are expected to do well in their business while at the same time, do well in the community and for their stakeholders. Certainly, due to China's unique social and environmental issues at its current development stage, China can afford to develop more sophisticated strategies in screening qualified foreign investors who are expected to bring and expose Chinese domestic firms to best CSR practices, which then can positively influence Chinese firms thereby creating a better society overall.

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## Appendix -3.1: Introduction of the organization of Golden Bee Council

Named after the friendly and sustainable species of honeybees which gather pollen and produce honey both for their own survival and for other creatures, the organization of *Gloden Bee Council* was established by *China WTO Tribune* and *Beijing University CSR and Sustainability International Research Center* in 2008, aiming to encourage Chinese firms as well as the subsidiaries of foreign MNEs to engage in sustainable and long term oriented development, thus enhance Chinese firms' capabilities of international communication and competitiveness. So far, a group of proactive Chinese indigenous firms and foreign firms' Chinese branches as well as CSR experts/scholars and government officers have joined in this organization. This organization has collected CSR reports that were voluntarily submitted by Chinese firms as well as foreign MNEs' subsidiaries (www.csr-china.net). The number of reports is 4,505 as of Mar 31st, 2014. According to Golden Bee Council, this is the most comprehensive dataset of Chinese CSR reports.

## Appendix -3.2: FanGang marketization index (content/dimensions)

Fan Gang is one of China's most influential economists and one of China's leading reform advocates (Insight Bureau, 2014). In order to provide insights and implications for Chinese policy makers on the issue of Chinese regional disparity, Fan Gang and his colleagues (Fan, Wang & Zhu, 2011) initiated the project of measuring institutional variances across Chinese provinces and started to publish the index in 1997. This index consists of five dimensions (i.e., (1) government size; (2) economic structure, including the growth of the non-state sector and the reform of the state-owned companies; (3) inter-regional trade barriers, including the price control; (4) factor-market development, including factor mobility; and (5) legal frameworks), which were chosen according to the theoretical framework and the features of China's reform process (Fan, Wang & Zhu, 2011). Under the five dimensions, there are 19 indicators of institutional arrangements. All indicators are measured on a 0-10 scale, reflecting the relative distance between provinces.

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PUBLICATIONS AND PRESENTATIONS

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