

**A Study of the Transfer of Corporate Social  
Responsibility from Multinational Enterprises to  
Chinese Subsidiaries: Implications for Christian  
Business Educators**

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Christian Business Faculty Association  
2006 Annual Meeting, Cedarville, Ohio, U.S.  
October 26-28, 2006

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# **Title: A Study of the Transfer of Corporate Social Responsibility from Multinational Enterprises to Chinese Subsidiaries: Implications for Christian Business Educators**

**Maria Lai-ling Lam<sup>1</sup>**

## **Introduction**

This study is to examine the perceptions of Chinese executives about corporate social responsibility and to explore some practical learning points for integrating corporate social responsibility in the corporate accountability mechanisms of multinational enterprises (MNEs). MNEs doing business in China are called by international organizations to take serious action to address human rights, labor rights, and environmental issues if these enterprises wish to operate in a socially responsible manner and have sustainable development (World Business Council for sustainable development, 2005; Asia Monitor Resource Center, 2006). Given the resources and global experience which well-established multinational corporations have, these MNEs should have many opportunities in dealing with environmental and societal changes in China by being self-regulated (Christmann & Taylor, 2001; Meyer, 2004) and by “addressing some of the problems facing the world, not in a philanthropic way but in a core, strategic way” (Manzoni, 2006). These rich MNEs are perceived to have obligation to give back to the Chinese society and contribute to the “harmonious society” the Chinese government wants to create (Welford, 2006).

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The author thanks Dr. Georgia Eshelman, Dr. Martha Cook, Gretchen Sudar, and Alice Lam for their helpful support and feedback.

Recently the topics concerning corporate social responsibility of multinational enterprises have shifted from whether to make such a commitment or not to how to make a substantial commitment to corporate social responsibility (Smith, 2003). Many researchers have verified that strategic management of Corporate Social Responsibility (CSR) can reduce risk (Husted, 2005), bring significant benefits to the firm (McWilliams & Siegel, 2001), and build valuable organizational capabilities (Sharma & Vredenburg, 1998). A recent study about the evolution of corporate responsibility of 13 leading MNEs (Ashride Centre for Business and Society, 2004) finds that these MNEs see social accountability as a “broad relationship management rather than a narrow focus on process and reporting.” These MNEs’ leaders are prepared for more change, more conflicts, more coordination, and more collaboration between internal members and various stakeholders.

Do multinational enterprises handle their CSR strategically in China by “examining global and local CSR issues independently of product market pressures and respond to those CSR issues according to demands for responsiveness and integration by local and global NGOs, host and home country governments and local market structure” (Husted and Allen, 2006)? Have MNEs established a set of policies and regulations to implement corporate social response programs in China and develop their local subsidiaries’ responsible capacity? How do Chinese subsidiaries fulfill their MNEs’ CSR standards and Chinese CSR standards created by the Chinese Enterprise Reform and Development Society (CERDS)? How can the learning process in corporate social responsible programs be part of an organization’s learning and specific resources for MNEs in China? How can Christian business educators respond to the challenge of

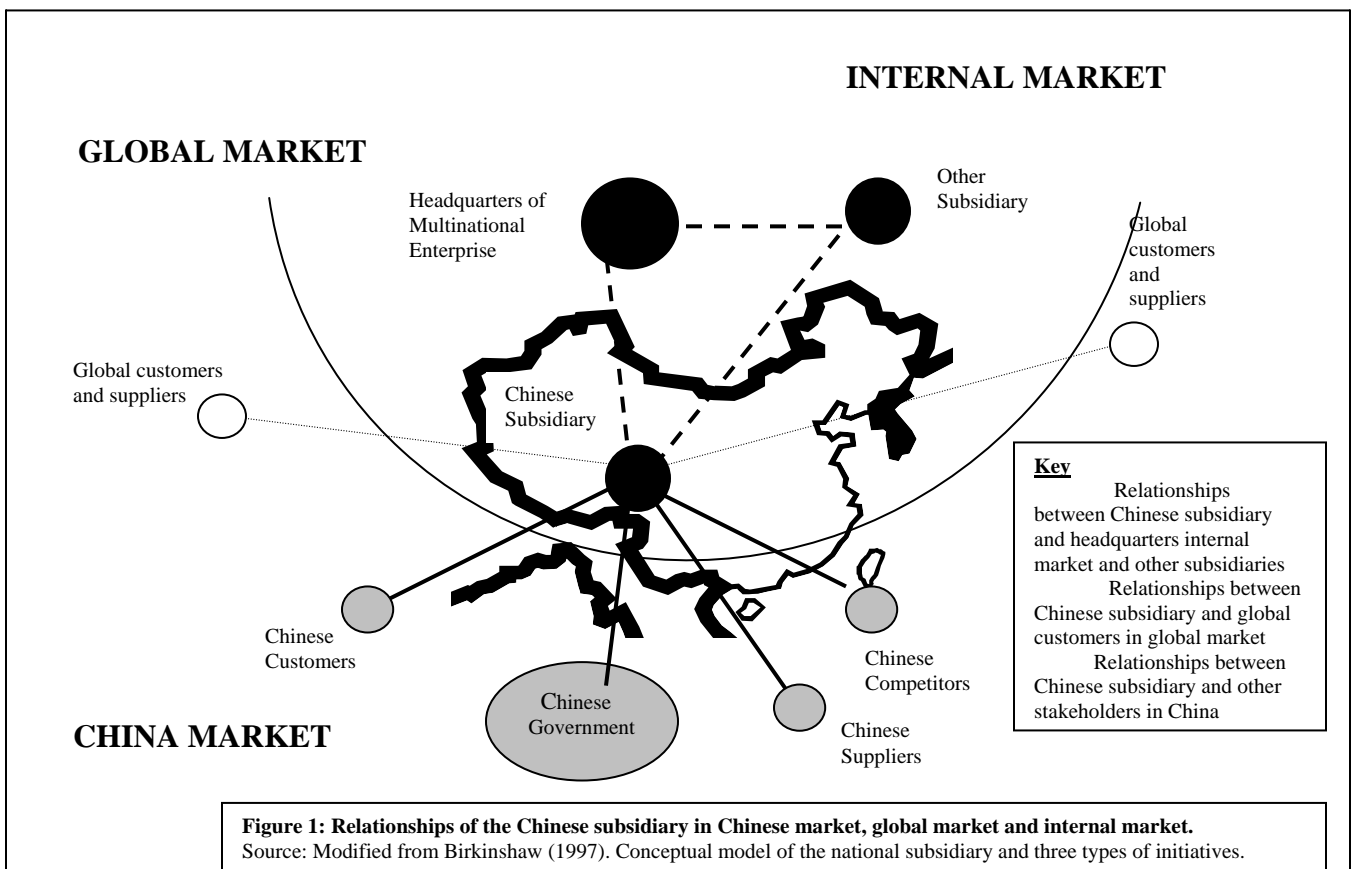
implementing CSR in a transition economy such that our students can become agents of the Kingdom of God---“offering to all our neighbors the good news of God’s mercy in Jesus Christ, of God’s forgiveness and healing and direction, of moral truth and living hope (Dawn, 1997:147)” in the global market economy?

In this study, Chinese executives and expatriates have to be integrated and display internal consistency with MNE parents and accommodate distinctive Chinese business environments in their day to day operations (Farley, Hoening & Yang, 2004; Bartlett & Ghoshal, 1987). These Chinese executives must deal with many ethical dilemmas and conflicts which may exist the Chinese system, company’s internal system, and between the Chinese system and global system (See fig.1). There are varying commercial business practices, market and competitive situations, and interpretations of Chinese laws and policies by officials at different levels and different regions in China (Lam, 2000, 2004). Chinese executives often have to confront idiosyncratic environmental complexity, structural uncertainty, and cultural specificity in China (Luo, 2002). Chinese executives tend to have a positive attitude toward self-regulation of environmental performance when their major customers are multinational even if the Chinese government lacks enforcement capabilities (Christmann & Taylor, 2001). Chinese executives can bribe the local government when their subsidiaries depend more on local government or stated-owned enterprises as their suppliers or customers (Sanyal & Samanta, 2004). Thus, the perceptions of Chinese executives about corporate social responsibility can be affected by many contextual factors such as subsidiary attributes, subsidiary-host country interdependence, MNEs’ focus, MNEs’ internal system, strategic importance of the Chinese subsidiaries to MNEs’, and host-home country relations. It is

important to examine these Chinese executives' beliefs as well as to identify how they operate in the area of corporate responsibility. This will facilitate developing better conditions for them to contribute and to develop their subsidiaries' responsible capacity in China through implementing corporate social responsible strategies in their subsidiaries

The research questions are:

1. What are the opinions of Chinese executives about their multinational enterprises' social responsibility?
2. What are Chinese executives' perceptions of the problems and the opportunities for implementing corporate social responsibility in China?



## **Methodology**

This research builds upon the researcher's previous studies with Chinese expatriates in United States and China business negotiations (2000), Hong Kong subsidiaries' Chinese executives' perceptions (2003, 2004), trust building between American and Chinese negotiators (2005), and human rights movement organizations in Hong Kong, China (2006). In the course of this study, she uses the transnational model of corporate social responsibility (Arthaud-Day, 2005) to discover ideological opinions, societal demands, and operational perspectives of corporate social responsibility. The beliefs of these Chinese executives and their operational behavior are understood through personal semi-structured interviews. Their multinational corporations' orientations are identified from their corporate social responsibility reports. The researcher's field work in five cities of China, including Chongqing, Dalian, Shanghai, Beijing, and Hong Kong, during May, June, and July, 2006, afforded her the opportunity to talk to many people about their expectations for these MNEs. She also read the published Chinese documents, articles, and Chinese students' dissertations about corporate responsibility and multinational corporations. She also asked her Chinese graduate students in Chongqing University and Dalian University of Technology to discuss the success factors of Kentucky Fried Chicken (KFC), Walmart, Carrefour and Coca-Cola in China and the impact of these firms upon communities in China. Twenty of seventy graduate students are working for state-owned enterprises and four are working for multinational corporations.

The research was designed as an interpretive study of the experiences and perceptions of Chinese executives who are ethnic Chinese and hired by foreign well-

established multinational enterprises (MNEs) in mainland China. These MNEs mainly came from developed countries such as the United States and Germany. They were accustomed to complying with international standards. Chinese expatriates' perceptions were understood in a subjective and interpretive way (Burrell & Morgan, 1979). Naturalistic environmental contexts and semi-structured, in-depth interviews were utilized in order to recognize the particular and unique experience of each subject of the investigation (Glaser & Strauss, 1967; Strauss & Corbin, 1994). In-depth descriptions of Chinese executives' perceptions on their own terms are strongly recommended in international studies (Boyacigiller & Adler, 1991). When the researcher described the theorizing process more explicitly, operated the process more self-consciously, and decoupled the process from past "settled" interpretations more deliberately, she could improve the theorizing process, and the theory itself could be improved (Weick, 1989).

As the researcher continued developing her interpretative skills during fieldwork and analysis over time, the gathered data became more meaningful. The validity of the results was based on the process beginning with the explicit examination of the researcher's own preconceptions, biases, and motives, and moved forward in a dialectic fashion toward understanding by way of a continuous dialogue between the interpreter and interpreted (VanMaanen, 1988). The analysis is ongoing. The data can be reinterpreted in the light of new understandings and continuing dialogue with those who were studied. In her data management and analysis, she is connecting the knower with the known. The way to maximize construct validity and descriptively contextual validity is to make certain that her interpretations connected with the experience of Chinese expatriates/executives and her consciousness of her beliefs and limitations. Her

interpretations must include the perspectives and voices of the people whom she studied (Strauss & Corbin, 1994). She tried to maximize internal validity by comparing the tentative findings with her extensive prior studies, numerous literature reviews and enlightening discussions with many experts. Emergent theory was grounded in data by ruling out alternative explanations and rival hypotheses that did not fit the data (Huberman & Miles, 1984).

The data for the perception about corporate social responsibility of Chinese executives were collected through semi-structured, in-depth personal interviews in May, June, and July of 2006 in China, and August in U.S. Each interview was conducted in each interviewee's native tongue and lasted from one to three hours. My approach was to structure the interview to cover four main sections and to encourage interviewees to express their opinions or feelings freely. The first section was exclusively personal matters: years of experience in foreign multinational corporations and present job, its job nature, and key customers or suppliers. The second section included internal practices: company's code of conduct, international standards, implementation of corporate social responsibility programs, corporate social responsibility strategies and programs, and internal due process. The third section included the impact of their company on competitors and the Chinese community: corporate social responsible citizens in their industry in China, and their company's contribution in the Chinese business community. The fourth section included their expectations and recommended changes in corporate social responsible programs in their companies.

## **General Characteristics of Chinese Executives and MNEs**

All interviewees had been hired by well-established foreign multinational corporations (see Table 1) and seven of them are responsible for purchasing, sales, and marketing with companies in China. All interviewees have one or more college degrees. Their years of working experience with foreign multinational corporations range from two years to twenty years. Their average years of experience in these multinational corporations are about five years. Nine interviewees were born in China and one interviewee was born in Hong Kong and was treated as a Chinese expatriate in his own company. Two are women and eight are men. Nine of them are holding middle level managerial position and one is at senior level position. Nine of them are working in multinational corporations (i.e., company #A, #B, #C, #D, #E, #G, #H) which fulfills the criteria of practicing global business citizenship based on the analysis of the characteristics of codes of conduct and their corporate social responsible programs listed in their companies' web pages (Logsdon & Wood, 2005). These seven companies clearly specify universal values, implementation process of these conducts, and their obligations to provide accurate and relevant information to stakeholders. They have developed governance structures to comply with the international standards set by the United Nation Global Compact, socially responsible fund, joined global reporting initiatives, and Dow Jones Sustainability Index.

According to Bartlett and Ghoshal's (1998, 2000) classification of international business strategies, company A, B, C, D, E, and H are global companies while company F is a multinational company. Companies A, B, C, D, and E have adopted global strategies which centralize many research and design functions at their world wide

headquarters. Their Chinese subsidiaries center attention upon low-cost manufacturing and local marketing. These subsidiaries rely on their parent companies to provide them technological and organization skills. Company G is a transnational firm that has developed appropriate coordination mechanisms among Chinese subsidiaries and regional units. There is localization of research, design, and management in China. Company F Chinese subsidiaries' response to local demands and they "tend to be structured as decentralized and loosely coupled federations of subsidiaries" (Arthaud-Day, 2005:4). It relies on the parent company's capital and distribution networks. Company F has listed some key company values such as integrity among employees, innovation in their corporate web sites. However, there is no elaboration as to how these values will be implemented and monitored in its working place.

**Table 1: Characteristics of Interviewees, Chinese subsidiaries, MNEs**

Interviewee I.D.	Date of interview	Company I.D.	Industry	Country of Origin of Foreign Parent	Global business citizenship	Strategic Orientation	Location of Chinese subsidiaries	Work Area
#1	May 19, 2006	#A	Telecommunications	U.S.	Yes	Global	Shanghai	Deal with suppliers of key components auditing suppliers' performance, choose new suppliers. Focus China market
#2	June 19, 2006	#A	same	U.S.	Yes	Global	Beijing	Marketing activities in Northeast Asian region, focus China market.
#3	June 21, 2006	#A	same	U.S.	Yes	Global	Beijing	Marketing, sales, supervision in Asian region, focus China market
#4	July 8, 2006	#B	Disel Engine	U.S.	Yes	Global	Shanghai	Sales executive in China
#5	May 30, 2006	#C	Automobile	U.S./Joint venture	Yes	Global	Chongqing	Buy materials from local suppliers
#6	July 17, 2006	#D	Chemical	Germany, listed in U.S.	Yes	Global	Beijing	Corporate communications
#7	June 9, 2006	#E	Advanced Technology Materials manufacturing	Canada, listed in U.S.	Yes	Global	Dalian	Assist General Manager who has to supervise 400 managers and 200 operation people. Focus internal operation
#8	June 6, 2006	#F	Distribution service	Belgium	Not	Multinational	Dalian	Sell services to many state-owned enterprises. In northeast part of China
#9	Aug. 23, 2006	#G	Multiple business division	U.S.	Yes	Transnational	Guangchou	Coordinate internal and external units, focus on local sales and production
#10	Aug. 26, 2006	#H	Pharmaceutical	U.S.	Yes	Global	Beijing	Marketing drugs to Hospitals in China

### Opinions of Corporate Social Responsibility

All but one of interviewees addressed the scope of corporate social responsibility issues in terms of some core values within their organizations such as internal employee conduct, responsibility to customers, and some charity work (see Table 2). These values are specifically honesty, team work, and customer orientation. The internal employee

conduct is closely related to the use of corporate funds and authorities. Employees are supposed to adhere to sound financial accounting principles, not to misuse funds designated for business purposes, and not to accept certain gifts or give bribes. No one has mentioned the need for democratic elections of representatives as Rosoff (2004) suggested.

Their concept of stakeholders are mainly customers (i.e., consumers, buyers); employees, and the local community (see Table 2). They emphasize providing good product and services to customers, treating employees with respect, and expecting better compensation. Although the researcher was frequently told they were overworked and had no time to do volunteer work; there was no expressed expectation that corporate responsible programs should create a balance between work and private life. Some Chinese executives, who were born in mainland China, received much less compensation than other expatriates for the same post at the same company. Some interviewees accept different compensation as a kind of social norm and do not question whether this practice is against their companies' values of equality and respect among workers. Some interviewees expect raises to bring their salary to one compatible to those of expatriates. Some expect their employers will give them more non-financial rewards such as training in a U.S headquarters or having more input in their subsidiaries.

All have been informed of their companies' code of conduct during their orientation programs. Interviewees from company #A and #H receive ethics training more than once and are informed when there are changes in policies and regulations. They are frequently being asked by human resource management or labor union to do some charity work such as planting trees or donating money to poor children. As

previously stated, many cite their work load as the reason they do not have time to participate. It seems that their subsidiaries' corporate giving often does not engage employees. No interviewee has mentioned some community rewards that their subsidiaries have received in China. It seems that no interviewee is being motivated or retained by the social programs.

All but one interviewee perceive that their subsidiaries are "self-responsible" business units that are pressed for economic benefits rather than social demands. Their performance is evaluated based on sales volume, efficiency, customers' satisfaction, or cost reduction. Their contribution to society or their understanding of the code of conduct are not evaluated. For example, company #B used five customers, five colleagues, and supervisors to evaluate interviewee #4s performance including business ethics and personal values. However, his marketing department had to fire 10% of the staff each year, and moral values of the staff members are not important in the final decision.

Interviewee #9 interprets environmental protection as an approach to assure the operating environment of his factories will not be disrupted by insufficient electricity or any government intervention. His orientation is to be responsible to his own company policies. He perceived that corporate social responsibility was a kind of international norm and a symbol of spiritual civilization. However, there is no punishment for companies which do not practice corporate social responsibility. He has not got any corporate social responsibility training and perceived that being involved in operating procedures of a good company is a good corporate social responsibility training.

Their learning of moral values in foreign MNEs is considered a part of corporate social responsibilities. Among the values to be learned are: honesty, equality between

gender, cultural diversity, team work, rules of doing things, problem solving skills, and corporate social responsibility. Interviewee #1 told me that he did not have a value of volunteer work in his thirty years' education in China until he first participated in volunteer work organized by his company. The Chinese educational system is dedicated to focusing upon academic performance. Character is evaluated in terms of having no disruptive behavior in the classrooms. He expected that corporate social responsibility should be systematically organized by the human resource department as Chinese people were, by nature, passive. Interviewee #2 learned some values such as honesty and not to compromise his or her integrity learned from his company. He told the researcher that being smart is more important than being honest as of practiced his Chinese childhood education. Chinese people were not used to thinking of cheating is as serious as his American counterpart companies did.

Interviewees' supervisors could be good role models and ethical consultants even though there are ethical committees in many interviewees' companies. During their training, their interviewees have been told what they can do and what they cannot do. Many are cautious of being fired for bribery or for misuse of money for personal interest. Interviewee #8 told me his supervisor asked him in his first two day of work to glance at the code of conduct listed on the wall without much elaboration. He almost forgot the meaning of all the professional words. His supervisor never asked him to read these professional words again and assumed that he understood them. He told me all the software in his company was copied, and all his employees had to give rebates to their Chinese customers. In modeling what his supervisor did, he had violated the code of conduct listed on the wall!

In summary, these interviewees' interpretation of corporate social responsibility is oriented to the internal operations of the firm and their personal learning. They focus on economic responsibility and efficiency. They are under pressure to meet many short-term goals and believe that corporate social responsibility programs are very time consuming and expensive. They perceive that they are responsible employees because they carry out their specific functions according to their companies' policies and regulations. They want to make sure that they are doing things right in their corporations. Their scope of corporate social responsibility is mainly related to their performance as required by their companies. Their definition of corporate social responsibility would not consider "the actions of a company to benefit society beyond the requirements of the law and the direct interests of shareholders" (McWilliams and Siegel, 2001). These interviewees' orientations of corporate social responsibility show that they are "transactional leaders" who are primarily interested in "corporate *Self-interest*" as Tulder (2006) described. They perceive that corporate social responsibilities should be implemented by particular department or high-ranking leaders in their corporations.

**Table 2: Opinions of Corporate Social Responsibility**

Interviewee ID.	Global business citizenship	Scope of Corporate social responsibility	Recommended changes
#1	Yes	Personal learning, concern gift giving	Give personal time and money to do charity work
#2	Yes	Personal learning, Concern localization	Give more flexibility to allow local engineer team to customize marketing
#3	Yes	Compensation system to deter bribery	Change company's policies and internal due process
#4	Yes	Good customer service, very strict corporate business conduct	Resign, hope to get some training in their headquarter.
#5	Yes	Good quality products to customers, cultural diversity, good training and personal development, management system	No time to do charity work, Better compensation as her salary is much lower than other Chinese or Asian expatriates at the same post in the company.
#6	Yes	provide environmental protection and poverty reduction, skill and information sharing	Local govt. should initiate to enable more companies to be more involved in CSR,
#7	Yes	Follow Chinese Laws, Pay Tax, No special dept. for entertainment, focus environment, health, and safety of workers.	Improve the quality of operators and raise their compensation
#8	Not	Good system-training, development	Personal success
#9	Yes	Localization, volunteer program, follow company's policy, use of money	Lower operation cost, provide more entertainment money
#10	Yes	Work in the boundary of companies policy and regulations, follow Chinese laws, some community work organized by labor Union	No comment.

***The Gap between Headquarters' Attitude and Subsidiary's Attitude toward Corporate Social Responsibility***

Many interviewees perceive that their subsidiaries goals are to make profits and not to solve social problems (see Table 3). They accept that the reasons for foreign firms to be in the Chinese labor market are cheap labor and local markets. Their subsidiaries' responsibilities are to make a profit and to pay taxes. They expect the Chinese government, not foreign companies, to solve social problems. In particular, the Chinese who were born in mainland China are used to relying on the government for social welfare, and many Chinese executives do not want their companies to be state-owned enterprises. These state-owned enterprises were inefficient because they had taken too much of the social responsibilities from the previous communist regime (Walder, 1986). Now, many state-owned enterprises have to be more efficient and get rid of their welfare

programs. In this historical, political, and social context, many interviewees view social responsibility programs included as an operation cost of their enterprises and in turn reduce the profit. These interviewees represent the classic view of corporate social responsibility as Quazi and O'Brien (2000) described. A classic view of social responsibility means there is "no provision to view of profit maximization as it is seen to generate a net cost to the company without real benefit flowing from an activity" (Quazi and O'Brien, 2000: 36).

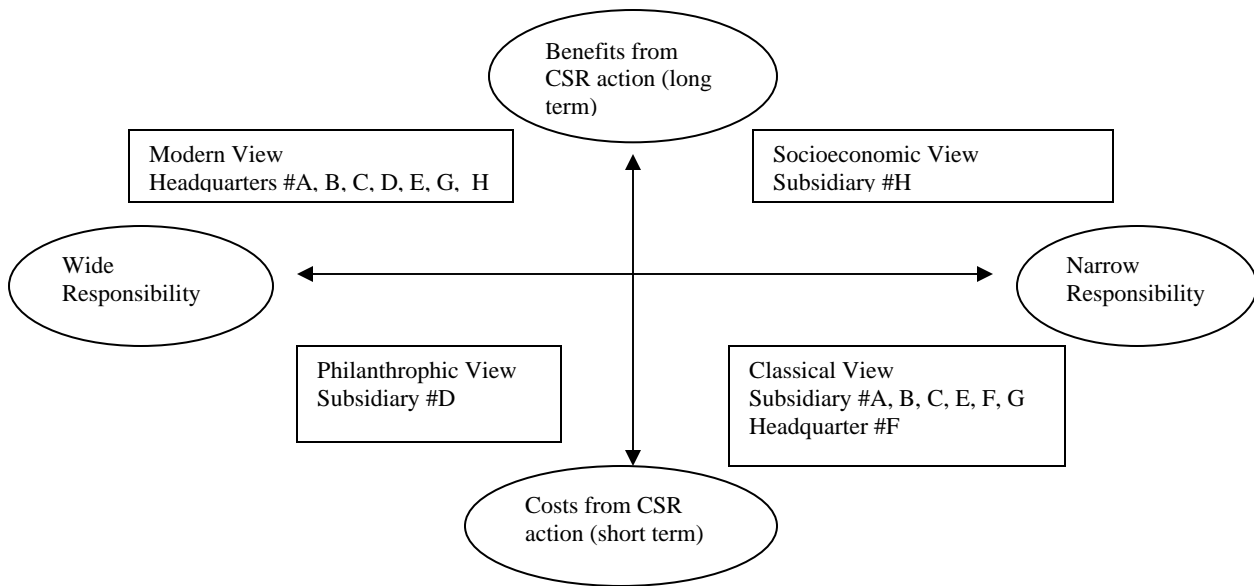
Interviewee #6 is responsible for communication and public relation in a leading well-known ethical company, she must work with a broad range of stakeholders and explains her rationale to her internal finance and legal department. Her view of corporate social responsibility is to participate in various charitable activities even though these activities are perceived as net cost. The motive is do some good for the society. This view is called a "philanthropic view" as Quazi and Brien defined (2000).

Interviewee #10 accepts that big corporations should adopt some corporate social responsible programs as these companies can afford to do charity work and can get some benefits in the long term. These benefits are better customer relationships and better corporate reputation. His view is a "socio-economic view" as Quazi and Brien defined (2000). He perceives that it is possible for big companies to maximize profit and also to serve some social demands.

Seven MNEs (i.e., company A, B, C, D, E, G, H) are defined as global corporate citizenship (Logsdon & Wood, 2005) and represent the modern view of corporate social responsibility. A modern view of social responsibility means "business maintains its relationship with the broader matrix of society where there are net benefits flowing from

socially responsible action in the long run, as well as in the short term” (Quazi and O’Brien, 2000: 36). These companies maintain sustainable relationships with a broad range of stakeholders through strategic alliances and use these relationships to enhance their corporate image and increase their competitiveness.

There is a great gap between these interviewees’ attitudes and their headquarters’ attitudes toward corporate social responsibility (see fig. 2). Many interviewees have the classical view while their headquarters have the modern view of corporate social responsibility. They are willing to seek the short term of economic growth at the expense of environmental protection or labor rights. They cannot see the possibility of inviting many stakeholders to respond to local demands as their responsibility and cannot see responding to local demands as an important competitive strategy. Although it is difficult and possibly not fair to use one interviewee to represent the attitude of each representative subsidiary, it can illustrate some problems of these MNEs’ corporate social responsibility implementation process and the potential of learning from their Chinese subsidiaries.



**Figure 2: Gap between headquarters’ attitude and subsidiary’s attitude toward social responsibility.**  
 Source: Modified Quazi & O’Brien (2000). A two-dimensional model of corporate social responsibility.

**Table 3: Attitude toward Corporate Social Responsibility**

Interviewee ID	Company ID	Headquarter's Attitude Reflected from Global business citizenship	Chinese Subsidiary's Attitude	Interviewee's Attitude toward Corporate Social Responsibility
#1	#A	Modern	Classical	"American companies come to China for cheap labor. He works hard for survival and learns to adapt much changes in the market."(#1)
#2	#A	Modern	Classical	"Company centralizes resources and adopts top down approach for cost efficiency. High turnover of top management." (#2)
#3	#A	Modern	Classical	"Economic performance, good compensation can deter greediness and motivates hard work."(#3)
#4	#B	Modern	Classical	"Fail 10% of staff, moral is indeed not important in final decision."(#4)
#5	#C	Modern	Classical	"Chinese operation is to assemble, not to manufacture a car. Only govt. can solve social problems. Chinese workers and supplier are in the stage of farming, not industrial stage. There are no sense of safety or environmental concerns among Chinese suppliers."(#5)
#6	#D	Modern	Philanthropic	"We are the leader in CSR. We push the boundary in CSR. We provide environmental protection and reduce poverty." (#6)
#7	#E	Modern	Classical	"Foreign companies have to make profit and paying tax is their responsibility. We cannot rely on foreign companies to provide social welfare. We must go through material wealth before spiritual wealth. Foreign companies learn bad practices from local companies" (#7)
#8	#F	Classical	Classical	Fulfill sales quota (#8)
#9	#G	Modern	Classical	"Corporate Social responsibility is an international norm, a good symbol of spiritual civilization. Chinese govt. support this. There is no enforcement if company does not practice it...better to reduce operating cost."
#10	# H	Modern	Socio-economic veiv	"Corporate social responsibility should be the responsibility of top management. Big companies reduce their profit by doing corporate social responsible programs. It is more human to be responsible as these companies are part of the community and are required to give back. Small companies do not have enough resources. Corporate social responsible program can increase the reputation of companies and customers' trust. It is good for managers!"

### **Problems of Adopting Corporate Social Responsibility**

All these interviewees expressed their high stress level of working in MNEs since they had to follow many organizational procedures while also dealing with many changes in the Chinese operating environment. They indicated that they were operating in a complex macro-economic, political-legal, or social cultural environment that is much different from their parent companies. Many did not know their companies' corporate

social response strategies and did not perceive any value of knowing the strategy. They did not expect to receive any corporate social responsible training. Many perceived the difficulties of adopting corporate social responsibility in their busy work schedule and specific Chinese culture (see Table 4).

**Table 4 Perceived Difficulties of Adopting Corporate Social Responsible Programs**

No time to do charity work (#1)
No time to do charity work (#2)
Specific Chinese business culture and outdated companies' policies (#3)
Specific Chinese business culture-entertain Chinese customers in terms of training abroad, smart in terms of copying information. (#4)
Different employees have different ethics, difficult to follow steps in the corporate system as changes in China is so dramatic. (#5)
Lack of enforcement of Labor Law, lack of credible partners Use a lot of resources to achieve small result, difficult to get support from legal and finance dept. (#6)
Specific Chinese business culture—entertainment, informal business talk (#7)
Specific Chinese business culture—rebate (#8)
No need to have corporate social responsible training! Daily operation practice is training. Increase entertainment budget. (#9)
No time to participate in community work organized by his Labor Union (#10)

***Specific Chinese Business Culture***

It is common for Chinese executives to spend lavish amounts of money on banquets, including drinking in an effort to make sales. Interviewee #3 who has more than twenty years of working experience in China and holds senior position in this subsidiary said,

You cannot avoid many problems such as corruption, rebate, financial embezzlement in China. What I can do is to reduce the risk of violating company's policies. I make sure that my people in my department will not be involved in these activities by giving them good salary and monitoring their

behavior. My people will not be motivated to submit false documents. There are many subtle elements in entertainment. Few days ago, I spent RMB6000 (i.e., U.S. \$900) for one dinner with a top leader of one company. I paid it even though it was very expensive for two people in China. I got the deal later. Fortunately, the human resource department accepted the bill. How do you justify the cost? Many clients always ask me to give them rebate. My approach is to ask them to write a cheque of RMB 1million before I will give them any rebate. Then they will stop.

Interviewee #4 told me that although his U.S. company had very strict rules and regulations about entertainment and business conduct, his company still entertained important Chinese clients by offering business trips in the U.S., giving gifts, and offering banquets. He also had to spend much time and money to “connect” with his Chinese clients through drinking wine. He affirmed that it was part of business culture, and he sometimes had to struggle when the meal was beyond the upper limit assigned by company’s policies. Some employees may be tempted to misuse entertainment money. Interviewee #9 expressed similar views and expected his company to increase his entertainment budget such that he could build better relationships with the Chinese government officials.

Interviewee #8 adopted local Chinese practices and gave a rebate for all Chinese clients in order for his company to be competitive. He attributed his company #Es practices to the business culture of China. He said, “foreign companies learn bad practices from domestic companies.” Interviewee #7 also attributed the bad practices of foreign companies to local companies in China. Indeed, the market in China is very

competitive and consumers are very price sensitive and do not exert much pressure on any company which has poor ethics. Some intellectuals<sup>2</sup> perceive that it is natural for bribery to be part of the process of industrial development in a transition economy.

### ***Problem of Intellectual Property Rights***

Dealing with intellectual property rights is a very delicate issue. Large companies such as company #A, #B, #C, #D are leaders in the industry and their practices are often copied by other foreign or domestic companies in the industry. The pricing of their product not only includes the services offered to customers but also the cost of reverse engineering. Interviewee #4 from company # B laughed when someone did not prepare for the reverse engineering when one sold a technical product to China. He perceived that it was very smart for Chinese clients to learn how to copy the technology through some negotiation practices. He believed that it was important for his American company to take legal protection for their technology before negotiations with Chinese clients and suppliers. He said, “It is very difficult to protect copyrights of some supplies of their engines, much information can be found from internet too!” The company would spend more money on monitoring Chinese suppliers and try to make sure that they would not violate the contracts. In addition, interviewee #8 from company #E told me that his whole company’s software and hardware were copied in order to lower cost of production in

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<sup>2</sup> In the 2006 Academy of International Business Conference, the researcher raised up the question about the foreign MNEs’ learning of bad practices from local Chinese companies. Several professors responded that it was a matter of survival in a low-cost and low-price driven Chinese economy. One professor said these big foreign pharmaceutical companies bribed many Chinese clients by offering many foreign trips. Local firms had to compete with these big foreign pharmaceutical firms, they had to give money directly to these Chinese clients. It seems that it will be disadvantage for a firm not to bribe if it wants to survive in the local market.

China. Even though his MNE is a well-established Belgium company, his company still cannot afford to follow all relevant local laws and regulations!

Interviewee #3 told me that his company would not directly sue small local Chinese enterprises that copied their product because it would cause a lot of social turmoil. He said, “These small local Chinese enterprises produce our products at RMB 50 while his company produces the same product at RMB 200. If my company sues these local firms for infringement of intellectual property right, three thousand employees of these small enterprises would be fired! These local Chinese enterprises and people would quickly attribute their anger to my big foreign enterprise!” Thus, his foreign enterprise company #A will not fight against these small local Chinese enterprises directly and prefers to advocate the issue of infringement of intellectual property rights to the Chinese official organization that is in charge of intellectual property rights. He perceived that it was a better way to maintain harmonious relationships with many local small enterprises in the community.

### ***Problems of Internal Due Process***

Internal due process is the formal process to deal with ethical issues in companies. Several interviewees have witnessed someone being fired for unethical practices in their respective companies. The process is an investigation-punishment system. When someone is caught by supervisors for unethical practices, he or she is fired quickly without investigating any problems in the system. Nielson (2006) criticizes this investigation-punishment system, a popular internal due process system, “narrowly

constrains the political, and moral space needed for meaningful ethics, voices, praxis, and community... because the system is 'top-down' received policies. There is little or no opportunity for consideration of improvement in or challenges to policies and /or biases in traditional system.”

Interviewee #3 told this researcher that his company’s policy only encourages fraud because no one wants to challenge the system. For example, his company provides RMB 200 meal allowance and RMB 10,000 transportation allowance each month. The company adopted the factory operation model in his sales office and assumes that each staff will have lunch in its factory canteen. The huge transportation allowance was reasonable when there were not many private cabs in Beijing ten years ago. Now, it is impossible for his staff to spend so much money on transportation and so little money on meals. Many members buy false receipts to claim transportation expenses. He had not engaged in these practices, but he did not want to tell the human resource department about the wrong policies because he would expose many colleagues’ fraud and his colleagues would receive punishment quickly according to his American company’s policies and regulations! He mentioned another case of fraud in his company--ten employees were fired for submitting false receipts. He knew their intentions and sympathized with them. He personally would sign these for his subordinates and would not take punishment actions. In general, many Chinese executives are used to embedding themselves in the network of relationships (*guan-xi*) that prohibit whistle blowing.

When these Chinese executives’ voices are not heard, they are not motivated to experiment with different corporate social responsible programs in China. As many interviewees perceive their companies are profit-driven in China, they don’t expect much

change in the system. When the problems in the corporate system are not examined, people who have power in the system can easily manipulate the system for their own advantages. They can easily attribute the problem of fraud to the poor quality of Chinese labor!

### ***Lack of Chinese Government Support***

Interviewee #7's company is the leader of CSR and always pushes the boundary of CSR in the business community. She is very frustrated by the Chinese government's unwillingness to provide tax incentives for companies' charitable actions. Many companies have to increase their cost of operation and put themselves in a disadvantaged position in a very competitive market when these companies follow the Chinese labor law although there is weak legal enforcement in China. As the Chinese government cannot easily approve many local non-government organizations, it is difficult for her to find credible partners. At times, she had to expend too much effort and energy to convince her legal department when her department had to work with some unapproved local non-government organizations. Even though her boss had great passion for corporate social responsibility, her company's initiatives could not be easily implemented without the support of the local government. She said, "If finance dept. finds that there is tax deduction, it is much easier to go. If internal lawyers find that local partners are approved by local government, they will sign the contract." Local government support could facilitate her work in the company, but that is often not what occurs.

## **Perceived Opportunities**

These MNEs are perceived to have made some contributions including: assisting their Chinese suppliers in upgrading their technical competence; providing good training and opportunities for Chinese staff; diffusing good business practices to other competitors in the same industry; guiding their Chinese employees to follow companies' policies and Chinese regulations in a complex operating environment. In general, many Chinese graduates have good expectations of MNEs and expect many MNEs can increase the competitiveness of the industry. Many Chinese employees of MNEs are teachable and are motivated to learn many good managerial and organization skills in their companies. If headquarters can show their commitment to develop these Chinese executives' managerial skills through implementing corporate social responsible programs in China, Chinese executives may be willing to give feedback toward corporate social response strategies, code of conduct, and policies. Many MNEs have already had a set of good codes of conduct which "can increase their accountability to developing economics, coordinate the expectations among MNEs and stakeholders, and establish norms of conduct for persons in the organizations" (Hsieh, 2006). These MNEs also have enough resources to develop their Chinese subsidiaries to become corporately more socially responsible.

When the Chinese government promotes a harmonious society and seeks to build a balanced prosperous country, many companies are encouraged to consider social and environmental cost as they pursue economic growth. Participating in corporate social responsibility can help many foreign enterprises to be engaged in Chinese business communities and to be supportive of the local and Chinese government. Some

subsidiaries of well known multinational enterprises can overcome the liability of being outsiders and reduce their vulnerability to social criticism by carrying out philanthropy programs encouraged by the Chinese government.

## **Discussion**

This study finds that seven well-established multinational corporations coming from different industries, national cultural identities and international orientations do not develop different corporate social responsible strategies or programs in China. There is no relationship between these MNEs' international strategy and corporate responsible programs in China. It differs from the expectation of transnational corporate social responsibility behavior developed by Arthaud-Day (2005) and the practices of MNEs' corporate social responsibility in Mexico (Husted & Allen, 2006) In addition, many corporate social response practices are seemed to be converging to a more common universal form across these subsidiaries. Many interviewees told the researcher that many well-established MNEs initiated similar charity work which is welcomed by the local and national government. The corporately social responsible actions of these Chinese subsidiaries are to fulfill the requirements of Chinese laws and their corporate policies in China. It seems that these well-established MNEs do not handle their corporate social response issues strategically in China nor establish a set of polices and regulations to implement corporate social response programs in China.

There is no corporate social responsible strategy in these subsidiaries. The development of corporate social responsibility may be related to the stage of economic development of China, and subsidiaries' responsible capacity. In the present stage, many

subsidiaries focus on human resource management and internal corporate practices as their major responsibility. When these Chinese subsidiaries want to maintain legitimacy within both China and MNEs, they are supposed to achieve isomorphism with the Chinese institutional environment and their MNEs (Kostova and Roth, 2002). These Chinese institutional environment include regulatory, cognitive and normative institutions. Since there is weak legal enforcement in China, the cognitive and normative components used by the Chinese and Chinese executives in interpreting the practices of foreign companies in mainland China will have much impact on the corporate social responsible practices. These Chinese subsidiaries are expected by their respective MNEs and their Chinese executives to maximize economic return and efficiency in China. When there is a high need for efficiency/cost competition in the Chinese market, many interviewees expect to have behavioral (i.e., through centralization, articulated procedures, close supervision, and behavior appraisal) and output control (i.e., results criteria and performance-rewards link) in human resource management. Their cognitive and normative framework is quite similar to what Jaw and Liu (2004) found in their study of Chinese executives working Taiwanese subsidiaries in China. These Chinese executives perceive that their subsidiaries are responsible when the staff can follow some standardized operating procedures and fulfill the targets of certain output.

Although many interviewees have gone through the rigorous selection and recruitment process, they seem not to internalize their corporations' values and do not have broad perspectives or a new view of corporate social responsibility. Many interviewees do not perceive any need of training of corporate social responsibility or any input control in human resource management. Many interviewees cannot perceive their

functional area that drives the value of corporate social responsibility. They perceive that corporate responsible strategies and programs should be done by a specific department or few high-ranking staff.

All interviewees have not got any training in their headquarters and do not have many opportunities to be socialized with their headquarters' culture and values. Few interviewees even perceive that there is no need for corporate cultural training because there is no much cultural difference in corporate social response programs and the cultural understanding of Chinese executives about U.S. culture is much higher than their American counterparts.

These well-established MNEs are leading companies in the local Chinese industry. They diffuse their technology and human resources to other competitors in China. They are highly trusted by local communities because of their global brand image, their legal compliance behavior, and their close relationships with the local government in China. Some even can lobby the local Chinese government to set up standards for the industry. These MNEs can increase consumer awareness of their good practices in the local community and increase their expectations toward other competitors. However, this study shows that Chinese subsidiaries have not yet seen their responsibilities beyond their legal requirements and their immediate stakeholders, and there is a great gap between headquarters' attitude and subsidiaries' attitudes towards corporate social responsibility. There is still a long way for these Chinese subsidiaries to have broad relationship management and to influence other competitors in China. Managers at headquarters and Chinese subsidiaries need to develop new skills and knowledge to diffuse the concept of social responsibility across different functional areas in their Chinese subsidiaries.

## **Recommendations**

These MNEs may take a long term approach to the socialization process of their Chinese executives in their Chinese subsidiaries as the primary vehicle for carrying out corporate social responsible programs. MNEs should promote and hire Chinese executives with values and experiences in environmental management or human right management when “organization outcomes—strategies and effectiveness—are viewed as reflection of values and cognitive based of powerful actors in the organization” (Hambrick and Mason, 2001). Chinese managers have to be good role models and keep on reinforcing ethical behaviors and the atmosphere in the working place.

When many social responsibility programs in their Chinese subsidiaries are perceived to be implemented by the human resource department, it is important for the human resource department to work with Chinese executives to identify the key societal factors affecting their business and sectors and to turn these responsibilities into opportunities and strategies. The human resource department must integrate corporate social responsibility across corporate functions through aligned incentives and consistent messages which derived from their MNEs’ corporate responsible strategies. Employees are encouraged to translate the idea of corporate social responsibility in business values and their contribution of specific function to corporate social responsibility through some corporate social responsibility checklist (see Accountability & Reporting Orbits). When expertise at different functional area are engaged in the process of finding the benefits of corporate social responsible programs to their area, they are motivated to be involved in local community work and go beyond their narrow scope of corporate responsibility. When the headquarters and Chinese subsidiaries can discuss possible strategies and

metrics that can incorporate the voices of many stakeholders, the Chinese executives can understand how their survival in their present companies relates to MNEs' corporate social response strategy and local responsiveness.

Many Chinese executives are willing to learn corporate social response programs if these programs can strengthen their managerial and organization skills which increase their competitiveness in the global market economy. It is important to know how to channel their passion for learning into a corporate responsible capacity that "can adapt to the social environment by recognizing and responding effectively to the responsibilities inherent in firm-stakeholder relationships" (Black & Hartel, 2003). Some corporate response programs can be framed as a kind of managerial training which improves team building and cultural sensitivity.

These MNEs must create conditions that encourage personal and organizational integrity in their Chinese subsidiaries. They must examine what these incompatible norms are and how these norms can work under their universal values and principles. They must examine their problems when they overrely on system and structure to manage the behavior of Chinese executives. When many middle level managers are under pressure to meet many short-term goals, they can easily be very cynical to the code of conduct or the modern view of corporate social responsibility. Senior managers need to develop code of conduct which can deliver values to their employees and be used as a tool to increase the corporate social responsible capacity of subsidiaries. These senior managers at MNEs must use the performance appraisal system that incorporate those values listed in the code of conduct and also keep on seeking and responding to feedback from their Chinese executives.

MNEs must develop some simple approach to change the attitude of their Chinese executives from present classical view of corporate social responsibility to modern one. These Chinese executives are encouraged to be exposed to the modern view of corporate social responsibility through some activities organized by China Business Council for Sustainable Development and China Enterprise Reform and Development Society. They can develop some strategies or work with some humanitarian organizations to prevent disaster in China and learn CSR as a strategy for sustainable development for their subsidiaries.

Furthermore, they must examine their present internal due process in their Chinese subsidiaries and set up employee board and mediator-counselor types of systems that can question the appropriateness of policies and the biases in the system that contributes unethical behavior (Nielsen, 2000). Thus far MNEs are willing to learn from experimenting with some local corporate response programs and listen to the voices of their Chinese subsidiaries; Chinese executives can trust their MNEs. Chinese executives can see their long term interests linked to their MNEs' corporate social response strategies and interest of many stakeholders, including local and Chinese government. It is possible for MNEs and their subsidiaries to address local and world social problems in a strategic way through organizational learning.

These MNEs can also work with many non-governmental organizations (NGOs) and use many tools and resources provided by these NGOs to develop their Chinese executives to be proactive in their CSR approach and learn how to incorporate social responsibility (Vaill, 1996, 1998). As Chinese subsidiaries gradually develop good corporate responsible capacity, these well-established MNEs could facilitate mobilization

by building upon pre-existing social relations with international non-government organizations and by developing communication networks with various constituents in China. In the process of collaboration among MNEs, many local subsidiaries, and international and local NGOs, teams of people from diverse background and experiences, network of organizations with various constituents can contribute much to the corporate responsible movement in China.

As thus far these MNEs have developed collaborative relationships with broad range of stakeholders in China, their subsidiaries can go beyond their narrow focus on short-term economic return and social reporting. The MNEs and their subsidiaries can move toward an organizational response to many stakeholders when they take corporate social responsibility seriously. They also can work “toward a culture of continuous learning through a commitment to regular, broad-based and systematic stakeholder engagement....” (Ashridge Centre for Business & Society, 2004) and increase their own companies’ sustainable development in a complex global market economy.

### **Implications for Christian Business Educators**

This study shows that many well-established MNEs have written their universal values and upheld modern view of corporate social responsibility which addresses human rights, labor rights, and environmental issues in their codes of conduct. These universal values are corresponding to the Christian humanistic values. However, there is a great gap between headquarters’ attitude and subsidiaries’ attitude toward corporate social responsibility. Chinese subsidiaries are expected to maximize economic return and

efficiency in China. There is a long way for Chinese executives to move from a classical view of corporate social responsibility to a modern one.

Christian business educators must help their students to take corporate social responsibility seriously and to be prepared for many conflicts and uncertainties in managing corporate social responsibility in a transition economy. Students are encouraged to be accountable to the Lord and experience spiritual growth through listening the voices of local communities and working with a broad range of stakeholders. We can use many Christian resources to respond to various interpretations of corporate responsibility and greediness of many corporations in a global market economy (Brubaker, 2001; Dawn, 2003; Drimmelen, 1998; Goudzwaard, 2001; Schweiker 2000; Stackhouse 2001). We can work with many non-government organizations in developing corporate social responsibility programs that can help corporations to increase their competitiveness and foster our humanity. We can be agents of the Kingdom of God as Stackhouse (1972:106) described:

the kingdom of God is the normative political structure of the communion of the saints means that any project that hopes to establish love and spontaneity and immediacy between persons must at the same time give the participants in the community direct access to the structures and skills of power and to its legitimate value systems. Otherwise the community is not authentic. It will not bear the marks of the ultimate future and it will not endure.

We can help many participants in their corporations and subsidiaries to access the structures and their legitimate values' system by providing training about the modern view of corporate social responsibility. With grace, it is possible to implement universal values listed in many well-established MNEs' codes of conduct and give people esteemed identity in a community with the presence of holy spirit. Because of the faith in the resurrection of Christ and the communion of saints, we can believe that the resurrected

order will be entirely different from the present and we are glad to join with the saints who were in the past and will be in the future in the movement that seek *Shalom* and justice for humanity.

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