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Institutional Structure and Firm Social Performance in Transitional Economies: Evidence of Multinational Corporations in China

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ABSTRACT. With the expansion of multinational corporations (MNCs), the alarming upsurge in widely publicized and notable corporate scandals involving MNCs in emerging markets has begun to draw both academic and managerial attention to look beyond home market practices to the pressing concern of CSR in emerging markets. Previous studies on CSR have focused primarily on Western markets, reserving limited discussions in addressing the issue of MNC attitudes and CSR practices in their emerging host markets abroad. Despite this incongruity in academic response to CSR in emerging markets, managers of multinational companies continue to face mounting and most often conflicting pressures to weigh among multiple strategic CSR responses in emerging markets. Such a task is often further complicated by the complexity of varying business norms and standards, regulatory environments, and stakeholder demands for CSR across national boundaries. With such a challenge in mind, I attempt to examine the explanatory factors in leading MNCs, otherwise recognized for accountability and integrity in their home markets, to employ inconsistent or negligent practices under CSR pressure in Chinese emerging economy. Preliminary findings reveal that discrepancies exist in how MNCs perform in CSR in home countries versus in host countries. While MNCs do have much to improve, the institutional environment in the emerging market, including the legal framework and the ethical culture, also needs to be improved by the host country governments, the industry associations, and local firms. Meanwhile, media interest and journalists, NGOs, third party monitors, industry stakeholders as well as consumer advocacy groups can raise the visibility of MNC's contradictory practices between their origin nations and countries with emerging economies and offer the pressures and incentives for MNCs to amend their ethical shortcomings. This article also suggests implications for both theory and practice.

KEY WORDS: corporate social responsibility, multinational corporation, emerging markets, transitional economy, China, institutional environment

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Introduction

As businesses rapidly transcend national boarders and bring about added complexity, multinational corporations (MNCs) are being increasingly held accountable for greater transparency and social responsibility. As a result, academics are also under pressure to offer improved understanding on the implications of these changes. (Donaldson, 1989; Husted and Allen, 2007; McWilliams et al., 2006; Porter and Kramer, 2006). Under mounting pressure from both external and internal stakeholders, MNCs' obligations to their stakeholders and communities have increased. More and more firms are expected to assume social responsibilities – for example, human rights protection, labor standards, environmental sustainability, and consumer protection – once addressed by governments and non-government organizations (NGOs) (Amba-Rao, 1993; Cordeiro, 2003; Palazzo and Richter, 2005;

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Waddock et al., 2002). Moreover, the expanding reach of media coupled with advances in information technology such as the Internet has allowed immediate and widespread exposure of corporate abuses in even the most remote corners of the world (Falkenberg, 2004; Smith, 2003). Multinationals are under greater scrutiny and subject to more criticism than ever before, especially when operating in the developing world where shocking accounts of scandals implicating MNCs continue to be brought to light (Adeola, 2001; Falkenberg, 2004).

Two questions are raised by the simultaneous increase in scrutiny of and expectations for MNC operations in emerging markets. First, why do MNCs which are popularly viewed in the West become mired in widely publicized corporate social responsibility (CSR) scandals in emerging markets? Second, why do MNCs compromise CSR by implementing lower standards of ethical practice in international host markets? It is notably difficult to establish a causal relationship between MNCs and the emerging host markets in creating substandard CSR environments. While growing awareness and scholarly resources have been directed to CSR studies in recent years, the majority have focused on activities in the Western markets in which MNC's headquarters are located (Marquis et al., 2007). However, in emerging markets, where poor government regulations and insufficient media scrutiny have left MNC operations relatively unchecked, the topic is under-examined (Cordeiro, 2003; Husted and Allen, 2007; Jamali and Mirshak, 2007). In order to address the paucity of CSR research in international contexts, this article examines why Western MNCs hold their domestic operations to a higher standard than those in developing countries. In order to address these questions, this article integrates the institutional and strategic choice perspective and explores how institutions matter, under what circumstances, to what extent, and in what ways (Powell, 1996; Scott, 1995). The activities of Western firms in China serve as a representative example. With robust economic growth and strategic resources, China, the third largest economy in the world in 2008, has come under the spotlight of MNCs striving for new opportunities to restructure, expand and harness untapped opportunities in the twenty-first century. As such, the MNC activity in China provides a unique context to research the evolution of MNC approaches to CSR (Krueger, 2008).

In this study, I will examine the range of MNC's strategic responses to CSR pressures in China. The article concludes with a discussion of the implications for theoretical research and for Western managers operating in emerging markets as well as policy makers at home and abroad.

Theoretical background

Corporate social responsibility may be considered as the manner in which businesses engage their stakeholders, including shareholders, employees, customers, suppliers, governments, NGOs, international organizations, as well as the natural environment through policies, processes, and procedures (Snider et al., 2003; Waddock et al., 2002). Carroll (1979, 1991) suggested the social responsibility of business comprises economic, legal, ethical, and discretionary or philanthropic components. Intertemporal differences in definitions of CSR suggest that the ethical and philanthropic components of CSR have increased in significance. Davis (1973, p. 312), for example, defines CSR as "the firm's considerations of, and response to, issues beyond the narrow economic, technical, and legal requirements of the firm to accomplish social and environmental benefits along with the traditional economic gains which the firms seeks." More recently, McWilliams and Siegel (2001) state that CSR is defined as corporate actions that further social good beyond the interests of the firm and that are required by law.

In recent years, the CSR debate has transitioned from a state of passive compliance with society's basic legal and moral rules to proactive engagement with social issues. This new engagement ranges from harm minimization to tangible and social value creation, and from whether corporations should act as social agents to whether and how a business case can be made for corporate social strategy (Husted and Allen, 2007; Jamali and Mirshak, 2007; Margolis and Walsh, 2003; McWilliams et al., 2006; Smith, 2003; Waddock and Graves, 1997).

The core questions driving the CSR discussions are what individual, institutional, and environmental dynamics shape corporate social activities and to

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what extent corporations' relationships with the larger environment depend on these dynamics (Bies et al., 2007). Academic literature has examined the ethical rationale behind CSR and the effect of heterogeneous economic, social, cultural, legal, and other institutional conditions on CSR practices (Armstrong and Sweeney, 1994; Jones, 1999; Whitcomb et al., 1998). Scholars disagree on the extent to which MNCs ought to meet its ethical obligations and engage its CSR objectives in emerging markets (Cooper and Dorfman, 2003; Griesse, 2007; Harvey, 1999). For example, Norcia (1989) advocates the active social agency of MNCs in the host country. Specifically, he argues that foreign MNCs in the apartheid conditions of South Africa could not reasonably shirk their ethical responsibilities and were obligated as business entities to act through disinvestment, and by establishing clear ethical goals and effective strategies to manage the relationship between the MNC parent and its host market subsidiary, the MNC home society and the host society, and the MNC home state and host state. Furthermore, he suggests a progressive sequence of MNC home state options ranging from a passive ''do-nothing'' strategy to full divestment, acts of corporate activism, home state support, and international sanctions.

In an assessment of the corporate social performance of Lebanese subsidiaries of international corporations and local Lebanese firms active in CSR, Jamali and Mirshak (2007) found evidence to support the argument that CSR understandings and practices are likely to be molded by specific national and institutional realities. These realities reflect the less-than-ideal socioeconomic and sociopolitical status quo in the developing economics and emerging markets hosting MNC's subsidiaries. Their view that ''level of societal development is also likely to influence the prominence and sophistication of the CSR discourse within a particular society'' (Jamali and Mirshak, 2007) relates systematic compromises of MNC CSR to inequities in socioeconomic development. These authors suggest concerted efforts toward collaboration between the private sector, public sector, and NGOs, and the leveraging of all partners to go beyond the boundaries of public relations.

Similarly, Cordeiro (2003) emphasized that positive public perception and support from multiple stakeholders are necessary for MNCs to be successful in emerging economies and, as such, MNCs should not only act ethically to establish their long-term reputations, but also bear the additional ethical responsibility to proactively promote ethical practices. Jones (1999) also emphasized that various institutional contexts – the social, cultural, and economic environment as well as industry level competitive environment – are relevant and set the condition for the concept and practice of social responsibility.

Using a development- and economic-based analysis, Campbell (2007) emphasized the impact of institutional conditions that jointly shape the degree of CSR, including public regulations and private watchdogs, such as the presence of nongovernmental and other independent organizations that monitor corporate behavior. Also using an institutional perspective, Marquis et al. (2007) observed how institutional pressures at the community level shape corporate social action in the metropolitan areas where corporations are headquartered.

Based on a review on CSR of MNCs in developing countries, Amba-rao (1993) emphasized the institutional interactions among MNCs, host governments, home governments, international organizations, and other stakeholders and activists in developing countries. Aaronson (2005) observed that since many developing countries do not have strong human rights, labor, and environmental laws, voluntary corporate responsibility initiatives are insufficient to address problems MNCs confront in their overseas operations. Thus, governments in MNC host countries should enact programs aimed at improving the rule of law, funding labor unions and civil society groups, training local suppliers, and taking initiatives to ensure that MNCs operate responsibly in developing countries.

Culture influences CSR across national boarders. Based on surveys of Western managers working in Romania, Su and Richelieu (1999) found differences between Western managers' ethics and those of their Romanian counterparts, especially in regard to bribery and corporate corruption. They concluded that culture influences work-related behavior by conditioning Western managers to unethical behavior in their home country and by helping them to adapt to the host environment to survive and maximize investments. In their comparative

study of Chinese and Western attitudes toward CSR practices, Shafer et al. (2007) examined cultural differences regarding what constitutes ethical practice as well as the actual importance of ethical and social responsibility. The cross-cultural differences help explain the compromises often made by MNCs in their ethical standards in China.

The discussion that follows introduces the economic, socio-cultural, and legal institutional environment in transitional China.

Transition and institutional changes in China

"Transitional economy" typically refers to formerly centrally planned economies transitioning toward market-based economies (Tan and Litschert, 1994). Many scholars observe that the tensions most evident in globalization stem from the distinctive cultural, social, economic, legal, and educational systems, as well as the values prevalent in any given society (Falkenberg, 2004; Iyer, 2001). The distinctiveness of these systems is particularly apparent in the complex, uncertain, and volatile environments of transitional economies (Apressyan, 1997; Cordeiro, 2003; Su and Richelieu, 1999).

China in particular exemplifies this volatility. Since beginning a program of liberalization in 1978, China has been developing at an unprecedented rate and has quickly emerged as one of the world's major economic powers, attracting substantial foreign trade. From the early 1980s to 1999, contracted FDI inflow to China has grown from roughly US$1.5 billion a year to over US$40 billion a year (Fung, 2002). A survey conducted by The Boston Company indicates that 90% of companies in Europe, the US, and Japan have set a "China first" strategy (China's Foreign Trade, 2000). The importance of Chinese market for MNCs is readily apparent. Despite the runaway economic growth, however, the transition to a market-based economy is usually characterized by behavior on the part of investing MNCs that is less than ethical and socially responsible (Apressyan, 1997; Shafer et al., 2007). Harvey (1999) noted that imperfect market regulation mechanisms, overemphasis on material pursuits, degradation of business ethics, disorderly competition, and the trading "power for money" by government officials have become an increasing concern, and firms tend to prioritize profit maximization and economic outcomes at great moral and social cost. Under such institutional pressure, MNCs may become motivated to lower ethical standards, ranging from environmental negligence and abusive labor practice to corrupt human resource management. In addition, the acceptance and implementation of these unethical practices often takes place in response to industry peers and competitors. Thus, the odds that firms will perform in socially responsible ways are often tied to the level of competition they face. When profit margins are narrow enough to threaten firms' survival, they may be pressured to cut corners and pursue irresponsible courses of development wherever possible to ensure survival (Campbell, 2007).

The understanding and practice of CSR is not only influenced by the economic environment but also bounded by the formal and informal "rules of the game" in the institutional environment (Campbell, 2007; North, 1990), which may foster an environment in which CSR is actively promoted, latently sustained, or silently discouraged (Jamali and Mirshak, 2007). With China's integration into the world economic system, significant changes have taken place in its institutional environment. Emphasizing the effects of weak institutional reinforcement on ethical behavior, Snell and Tseng (2003) described the contemporary business environment in China as embedded in a weak legal system and weak civic accountability. Such institutional structure becomes hotbed for unethical practices such as conspicuous corruption, tax fraud, fraudulent inter-business dealings, and plundering of state assets during the last two decades of economic reform in China (Tam, 2002).

Rule of law is arguably the institutional foundation of the modern market economy. The state's laws and regulations, their monitoring and enforcement, and certain other political institutions influence the efficiency and development of the economy by constraining the behavior of the government, businesses, and individuals (Campbell, 2007; Qian, 2002). Despite initial effort, more fundamental institutional reforms are needed to bring China's regulatory standards up to par with those of MNC host countries. Until China's regulatory environment offers formidable deterrents to corporate misconduct and CSR violations, MNCs will face ambiguous expectations and definitions of ethical practices. Disparities between MNC host country protection policies and

those effectively enforced in China demonstrate an area in which MNCs may be compelled to adopt substandard CSR practices to maintain competitiveness.

In summary, China's development suffers from a requirement for, but the absence of explicit regulations, a loose and corrupt enforcement system, ineffectual monitoring at different levels, bribery and corruption, and weak legal knowledge education. These problems plague China's transitional legal system, leaving loopholes or ''gray zones'' which are exploited by MNCs amidst the disorder of reform (Dunfee and Warren, 2001; Harvey, 1999). Such an institutional environment offers a unique opportunity to test existing theories and to build new ones explaining behavior of MNCs.

Research design and data collection

Analytical approach

Typically, CSR research uses survey; cases studies are neglected. This imbalance is likely the result of prudential and ideological considerations (Brigley, 1995; Crane, 1999). In their review of 94 published empirical studies of ethical beliefs and behavior in organizations, Randall and Gibson (1990) found that 81% of available empirical studies relied exclusively on survey data. Similarly, Ford and Richardson (1994) observe that over 95% of 46 published studies of ethical decision making relied exclusively on questionnaires, open-ended questions, interviews, or the subject's response to a hypothetical scenario or vignette posed to them (Harris, 2001). Such a heavy reliance on survey methods has been criticized as being conceptually naïve in terms of weak theoretical bases, and having a lack of clear hypotheses and poor conceptualizations (Crane, 1999; Randall and Gibson, 1990). Surveys introduce methodological problems such as measurement difficulty, limited potential to grasp the complexities and nuances of moral issues, information validity, and respondents' social desirability bias (Cowton, 1998a, b; Randall and Fernandes, 1991). Reliance on secondary data and self-reporting does little to shed light on the complexities of cross-cultural research in CSR as well and suffers from inherent desirability and selectivity biases.

In contrast, exploratory case studies, utilizing multiple sources of evidence, are conducted on a foundation of naturalistic interpretation of social action rooted in the context of organizational cultures and institutional systems and allows the researchers to determine the effective meaning of ethical beliefs and responsible practice within its real-life context to build up a more holistic understanding of the research issue (Yin, 2003).

Studies of MNC's CSR activities typically examine Western contexts. Since the issues relevant to transitional markets are under-examined (Cordeiro, 2003), a qualitative approach is more able to reveal the sensitive and complex issue of MNC's CSR performance in China (Eisenhardt, 1989). Such an approach facilitates within-case analysis and cross-case comparisons, which can greatly enhance the replicability and generalizability of conclusions elicited from the cases (Eisenhardt, 1989; Yin, 2003). In response to such calls, this study uses mixed methods, including analyses of corporate documents and media reports, as well as interviews with a range of actors from the field to construct an understanding of legitimate CSR practices. Secondary data provide material when it is not possible to gather primary data, overcoming a substantial dilemma in conducting CSR studies. With its unobtrusiveness, the ''eavesdropping'' quality of the case study overcomes the social desirability response bias and the reluctance to respond to explicit ethical questions (Cowton, 1998b; Harris, 2001; Randall and Fernandes, 1991). Moreover, secondary data, generated at the time as the events being investigated, overcome problems of recollection and make longitudinal study possible (Harris, 2001).

Sample selection and data collection

The question addressed by this research is why MNC's adopt strategies in host countries that differ from their approaches to CSR in their home countries. This case study spans a period of rapid change in China, from 2001 to 2007, during which China emerged as one of the most attractive destinations for foreign investment since its entry into WTO. The case study follows Eisenhardt (1989) and Yin (2003)'s roadmap for the process of building theory from case study research. I first identified

cases in which CSR was handled with controversy and interviewed executives from the companies involved. Given the nature of issues addressed in the study, extensive measures were taken to protect the confidentiality of the interviewees and to assure that no identification information would be used directly in this study. As noted in other studies in China (e.g., Tan and Litschert, 1994), under the condition of anonymity, interviewees are more likely to report information truthfully and allow me to assess the circumstances, dynamics, and complexities of each case to gain an in-depth understanding about the issues involved. I then supplemented the interview data with relevant information from public sources to develop the case materials. In summary, cases concerning MNCs' breach or neglect of CSR were collected primarily through five channels: (1) interviews with executives of selected companies, (2) traditional and online international media reports (e.g., *Financial Times*; *International Herald Tribune*) as well as Chinese mainstream business media sources (e.g., CCTV; *People's Daily*; *Daily Economic News*), (3) company websites, including official press releases, public statements, corporate CSR reports, memos, etc., (4) investigative reports issued by international agencies and organizations and NGOs, and (5) public academic databases including Business Source Premier (via EBSCO), the Transnational Center of China under The Ministry of Commerce of China and the Center for Transnationals Studies hosted by Nankai University. These multiple data sources enabled triangulation, substantiating the constructs and hypotheses, and ensuring a diversity of perspectives (Eisenhardt, 1989).

CSR ''incidents'' – the cases included in this research – were selected using Frederick's (1991) summary of MNC normative guidelines, which are also consistent with the United Nations Universal Declaration of Human Rights (1948) and the Organization for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises (1976). These guidelines include: (1) human rights and fundamental freedoms, in this context, largely referring to labor rights including providing favorable working conditions, limited working hours, guaranteeing worker' rights to join trade unions and collective bargaining, (2) environmental protection, including the regulation of specific operations that contribute to air, water, or soil pollution, and the development and implementation of technology that can monitor, protect, and enhance the environment, etc., (3) political payments and involvements, mainly in the form of bribery or improper payment to public officials, and (4) consumer protection, such as respect for host-country laws and policies regarding the protection of consumers, safeguarding the health and safety of consumers by various disclosures, safe packaging, proper labeling and accurate advertising. These guidelines apply to normal business operations and define the fundamental rights and responsibilities of firms.

The diversity of MNC country of origin and industrial context is also taken into account. The question of whether differences exist between the CSR of MNCs from different countries/areas and across different industries is relevant. The case sample (Table I) is composed of wholly foreign-owned enterprises (WFOE); joint ventures; and subsidiaries or suppliers of MNCs whose headquarters are located in North America, Europe, or East Asia. These businesses run the gamut from high-end IT and electronics, to food and consumer commodities. The cross-cultural and cross-industry within-group and inter-group comparison and analysis enhances its external and internal validity. In order to respect firm's anonymity, all the cases were denoted by alphabetss.

Analyses of CSR of MNCS in transitional China

Table II provides a list of MNCs' violations of CSR in transitional China. Host governments ought to be held accountable for the contribution of lax institutional environments, imperfect or incomplete legal provisions, and detrimentally ''laissez-faire'' policies to CSR failures. On the other hand, MNCs' weak control over the global supply chain, irresponsible attitudes with subsidiaries and joint ventures, and substantially less transparent business dealings in the developing world are also to blame and ought to be recognized as conscious behavior on their part. In the following discussion, I aim to explore the various underlying factors leading to MNC violation of CSR with these two factors in mind.

TABLE I

Sample characteristics

Case ID	Origin	Industry	Ownership	Select background	Time
A.	Taiwan	Electronics	WFOE	A leading Asian electronics and computer components for MNCs	2006
B.	America	Retail	Supplier	US retailer	2005–2006
C.	America	Footwear and clothing	Supplier	Major supplier for world's largest shoemakers	1999–2002
D.	America	Food	Franchiser	One of Fortune 500 food service franchiser	2007
E.	Japan	Electronics	WFOE	Based in Guangdong	2004
F.	Korea	Electronics	WFOE	Based in Guangdong	2006
G.	America	Electronics	Joint venture	A leading computer company in the US	2005
H.	America, Swiss, Denmark, Japan, etc.	Food, electronics, chemical, manufacturing, etc.	Subsidiary, WFOE, joint venture, etc.		2006–2007
I.	America	Food	Franchiser	A leading specialty coffee retailer	2007
J.	America	Retail	Joint venture	Same as Company B	2003
K.	America	Electronics	WFOE	A leading computer-service company	2003–2006
L.	America	Technology	WFOE	A leading US technology companies	2004
M.	America	Medical equipment manufacturing	WFOE	A leading diagnostic equipment manufacturer	2005
N.	Swiss	Food	Joint venture	World's leading food company headquartered in Switzerland	2005
O.	America	Consumer goods	Joint venture	A leading consumer goods firm	2006
P.	America	Food	Franchiser	A leading fast food chain	2005
Q.	Germany	Automotive	WFOE	A leading auto maker	2001–2002
R.	Germany	Automotive	WFOE	A leading auto maker	2004
S.	Japan	Electronics	WFOE	A leading manufacturer of consumer and industrial electric and electronic products	2000

TABLE II

Evidence of CSR violation of MNCs in China

ID	Accused CSR violation (content from Table I)
A.	British and Chinese newspapers reported from on-site investigations into Firm A's facilities that female workers labored 15 h a day for $27 a month and were squeezed in rooms with over 100 people. Firm A denied any ''wrongdoing,'' alleged ''huge discrepancies'' in the report, called the report as ''vicious attack,'' and threatened that it reserved the right to take legal action against the Chinese media. After the public expressed huge indignation, Firm A and the Chinese media released a joint statement that A would drop the charge while both sides have made apologies and expressed mutual understanding toward each other to build a ''harmonious society''
B.	Monitoring groups under New York-based National Labor Committee and China Labor Watch released reports based on investigation into one of Firm B's major suppliers' in Guangdong, that Firm B denied workers' overtime pay and maternity leave, paid less than minimum wages. Firm B explained that any violation of the labor law and standards occurred without their knowledge. It insisted that it had been aggressive in detecting and correcting labor problems, sending inspectors to the factory, and imposing strict standards on its suppliers. However, the manager of the supplier said that total compliance with national law was just impossible to cover the buyer's (Firm B) demanding price. The supplier firm usually received notice before inspection, so that they were given ample time to select right workers to respond to inquiries. Those who provided satisfactory answers will be rewarded, or else be punished. Since there was no labor union in the factory, any violation of workers' rights usually met with impunity. For example, strikes usually ended with heavy fine on or termination of employment contract of the lead organizers. Firm B denied direct involvement but actively investigated, and imposed strict standards on its suppliers
C.	Through independent investigation from 1999 to 2002, China Labor Watch released a long report accusing Firm C's supplier of violation of China's Labor Law as well as workers' basic human rights in terms of discrimination, forced overtime, lower than minimum wages, and dangerous working conditions
D.	The labor bureau in South China's Guangdong Province reportedly began its probe into the case, in which Firm D was accused of paying part-timers much less than the Guangzhou minimum wage of 7.5 yuan (US$0.97) per hour. Right after the exposure, Firm D issued a statement that their company always complies with Chinese laws and regulations, under the pretext that part-timers are out of the jurisdiction of Chinese Labor Law. Another 6 months later, Firm D declared that it would raise the salaries of its employees, including part-time workers at its 800-odd Chinese outlets, effective from September 1. About 95% of Firm D's Chinese staff saw a pay rise by 12–56%, with an average of 30%. However, the management denied any relationship of pay rise with the previous labor scandal it has been accused of
E.	Chinese middle management as well as staff accused top managers of Firm E of abuse, insult, sexual harassment, according to interviews with factory employees. It is reported that the managers forced female employees to read pornography, and abused employees verbally and physically on a very frequent basis. Eight Chinese management staff requested to resign after futile protests; however, their application was denied. In the end, they had to resort to media monitoring. However, the management was reported to be very rude and denied the fact during investigation
F.	Director of Firm F insulted Chinese security guards in the public on a very frequent basis and demanded salutes each time he drove in or out of company. Although the apparent insulting behavior was widely condemned in the factory and resulted in resignation of the captain of security guards, the director used ''cultural difference'' as a pretext and appointed the chief operating officer as his proxy to issue a letter of apology under huge external and internal pressure
G.	Firm G joined forces with environmentalist NGOs Global Village of Beijing and Root & Shoot in a print cartridge recycling program called ''Cartridges for Dragon Recycling,'' aiming to enhance public understanding and to equip communities in Beijing and Shanghai free pick-up and recycling service. However, *Daily Economic News* investigation a year later revealed that this program turned out to be just a ''show,'' with great discrepancy between the number of cartridges actually recycled and the number Firm G claimed in public to have recycled. What is more, this number was too small compared to either the number that G recycled in other developed countries or to the total number of cartridges which Firm G sold in China

TABLE II

continued

ID	Accused CSR violation (content from Table I)
H.	In 2006, Firm H was exposed for breaking China's basic environmental regulations in terms of over-discharges of waste water and gas, and unauthorized construction. Firm H denied responsibility and blamed local conditions. It also sent corporate documents on CSR but refused direct communication, and delayed corrective actions
I.	It has been widely reported that constant flow of tap water in 50 chain stores of Firm I in Beijing alone can cause a waste of up to 100 tons of water each day, which aroused public outrage among Chinese consumers. Firm I issued an announcement stating that constant water flow in the chain stores is for washing the food utensils, now that the flowing water can prevent the multiplication of microorganism and bacteria. They further clarified that the company always tries its best to keep the water flow to a minimum, while meeting the hygiene regulation. Keeping constant tap water is a universal practice in the stores of Firm I. Public relations manager from headquarters of Firm I in Greater China is quoted as saying that only a small quantity of water flows through taps in the chain stores of Firm I every day, and it is unlikely to waste as much water as the media disclosed. However, she does not disclose how much water flows through each day or how much water the stores use every day. Firm I was reported to have asked each of its stores to adjust the controls of the water taps in a flexible manner in accordance with the customer flow since this event
J.	Peng Muyu, Director and Party Secretary of the Department of Foreign Trade and Economic Cooperation of Yunnan Province, was given 5-year sentence when he admitted that his wife accepted around 100,000 Yuan's worth of "gift" for introduction of Firm J into Kunming from its Chinese shareholder. However, Firm J denied any knowledge or direct involvement in it, claiming that "gift-giving" was Chinese shareholder's personal behavior, having nothing to do with the headquarters of J
K.	Firm K was identified by Beijing's No. 1 Intermediate Court as one of the three MNCs that paid an agent $225,000 for helping bribe former Chairman of China Construction Bank Corp. as "service fee." However, Firm K denied any knowledge of bribes and explained the "gift money" as "service fee"
L.	Firm L, after an internal investigation, revealed that it found "internal control deficiencies" in its subsidiaries in China, referring to possible violation of FCPA, in a regulatory fling with the Securities and Exchange Commission (SEC). Later, the headquarters fired four executives in China subsidiary before they could be aware of it. Firm L declared that it had already improved its internal control to prevent such incidents from recurring. Firm L was very cooperative with government agencies and reported the findings to the US Department of Justice (DOJ) and SEC
M.	Chinese subsidiary of Firm M was alleged to have made payments to senior hospital officials in China during 1991–2002 in exchange for contracts to retain its products and services. It was first reported by its headquarters in American to avoid hefty fines. On investigation, the US DOJ charged Firm M for criminal violation of the anti-bribery provision of the FCPA and dealt it with heavy penalty. Firm M reached an agreement with DOJ and SEC, in which it agreed to pay $4.8 million in fines, including a criminal penalty of $2 million to the DOJ, a disgorgement of $2.04 million to the SEC, and $750,000 in prejudgment interest to the SEC. Firm M also agreed to hire a compliance monitor and retained an independent consultant to review its compliance. Chinese subsidiary of Firm M was reserved about disclosing who were involved in the bribery
N.	Excessive iodine content which broke the Chinese standard set by the Ministry of Health was found in the milk products of Firm N during quality checks. The Administration requested Firm N to suspend all sales and withdraw faulty products immediately. At first, Firm N stated that the company was not aware of the problem until media exposure. It insisted that the products were safe: "while the products didn't comply with local standards, it did comply with international standard." With pressure from government agencies, media, and consumers mounting, the company was forced to make apologies and agreed to recall the problem products with a few catches (no refund, only exchanges). In the end, Firm N was forced to issue a public statement, claiming new procedures will be established to increase frequency of iodine testing and to make sure milk products comply with Chinese standards

TABLE II

continued

ID	Accused CSR violation (content from Table I)
O.	Firm O was accused by a Chinese consumer for misleading advertisement of its cosmetics in China market, which contained information long eliminated in Western countries. Later, the product was found to contain harmful chemicals like Teflon and sodium hydroxide. At first, Firm O directly denied the accusation of harmful chemicals; much later, it was forced to admit its mistake under pressure and agreed with return of harmful goods, with a lot of conditions and with arrogance, which further exasperated Chinese consumers
P.	Firm P was found to provide Sudan-tainted food, whose use was banned in China. Firm P admitted the mistake immediately, and published the investigation results. Firm P made sure that the contaminated ingredients were withdrawn from all the outlets and disposed in accordance with the waste-treating standards. In addition, the company completed the production of substitutes which had been sent to the special institutes recognized by China for measurement
Q.	A plaintiff in central China bought a sedan from Firm Q and claimed it developed engineering faults within days. The dealer of Firm Q in Beijing sent technicians to repair the car five times at the plaintiff's request, but the same problem kept cropping up; after several futile attempts to return the car, the plaintiff destroyed the sedan in a public show of anger against the perceived failure of the car maker to correct inherent faults. A few months later, another customer of Firm Q in Beijing smashed his sedan for the same problems in support for the other plaintiff. However, Firm Q denied any design or production faults with the car, instead blamed it on the use of contaminated fuel. Furthermore, the company demanded apology from the car owner, threatened to take legal action against him, and refused to show up before national media. Later on, Firm Q published an open letter to clarify the facts, basically defending itself and condemning the car owner's uncooperative action
R.	An outraged owner of problematic sedan produced by Firm R hitched his car to a three-donkey team, planning to get the animals to drag the vehicle from Beijing to Hangzhou. He bought the car for 2 million Yuan half a year earlier, immediately found some problems, got it fixed in Beijing, then 11 more problems cropped up afterward, and in the end it became almost un-drivable. Manager of PR Dept. from Firm R declared if the car owner gave them a chance to repair the car, he would promise all the problems be solved though the truth is that they were given a few chances before the escalation of the event. Finally, the issue ended with a joint statement that Firm R had negotiated with the car owner, and they had worked out the solution
S.	Firm S refused to compensate Chinese consumers, or even hid the fact for a disk drive flaw in laptop that could cause a loss of data. In contrast, Firm S agreed to pay 500,000 American customers a total of $1.05 billion in compensation for the similar glitch. At a forced press conference, Firm S denied the existence of a flaw, on its website for American consumers, and claimed the compensation as an "amicable settlement." The vice-President of Firm S offered to do everything including offering users software to help Chinese laptop purchasers except compensation. It asserted a strong stand against Chinese consumers because China does not have concrete laws concerning this kind of consumer compensation as US does

Incomplete legal and regulatory framework

A survey conducted by a Beijing-based information consultancy revealed that foreign companies were involved in 64% of the 500,000 documented bribery and corruption cases investigated in China over the past decade. This figure is climbing. It would appear that MNCs, which were initially praised for bringing market-driven competition and Western "rules of the game" to emerging markets such as China, have, over time, gotten involved in various CSR dilemmas and scandals.

Gift-giving and kickbacks, for instance, have been viewed as being indispensable to securing land contracts and facilitating business operations in China by MNCs (Steidlmeier, 1999). What is more, some indirect forms of bribery "with foreign characteristics" such as luxury "gifts" have emerged. These gifts are typically paid through Chinese shareholders in a subsidiary to the family of government officials – as in Case J – or "service fees" given to sales agent or public relations intermediaries – as in Case K. Both Companies J and K vehemently denied any direct involvement in, or even awareness of, the bribery

scandals and unscrupulous business dealings of their overseas operations, asserting the alleged bribes were merely gifts or compensation of fees for "assistance and services" provided by their Chinese business partners. Furthermore, the companies claimed the payments were offered to alleged bribe recipients as gratuities to "friends," rather than as part of their formal business transactions. Despite the apparent implausibility of such sizeable and strategic payments being made solely as gratuities and service fees, substantiating allegations of bribery is a more difficult task in China than previously anticipated. Due to the absence of irrefutable, non-circumstantial evidence of bribery, no instances of MNC's being fined by the Chinese government have ever been reported.

In cases L and M, however, both multinationals came under scrutiny after their activities were exposed by their own parent companies in the US. These US-based companies were compelled to report their own foreign operations to the US authorities to avoid hefty penalties or even criminal charges by the US Department of Justice and Securities and Exchanges Commission, as stipulated in the US Foreign Corrupt Practices Act (FCPA). The act's anti-bribery provisions aim at combating overseas business crimes (Baruch, 1979). These prosecutions, initiated by the American government against American firms, have been the only legal consequence of the CSR violations. Chinese firms directly implicated in involvement with bribery practices between these foreign multinationals – the actual recipients of the bribes – evaded any form of punitive action and formal indictment under the Chinese legal system. Since there was no comparable Anti-Commercial Bribery Law in China and no equivalent to the FCPA, it is hard to investigate – and even harder to formally charge – the MNCs which are increasingly involved in indirect forms of bribery. According to a report from Transparency International, a non-governmental international organization mandated to "support global integrity systems both nationally and on the international level," China is one of the most compelling examples of a nation rife with commercial bribery practices in the current global economy (Wilhelm, 2002).

The prevalence of commercial bribery has brought substantial harm to the burgeoning Chinese economy and society as a whole. Ethically questionable practices are pervasive in all levels of commerce. While regulation of commercial bribery is not entirely overlooked in China's legal system, the legislation is largely underdeveloped and inconsistent. The Chinese Industrial and Commercial Administration has introduced "Temporary Provisions on Combating Commercial Bribery" and "Anti Unfair Competition Law of the People's Republic of China" – regulations which, to a certain extent, limit commercial bribery. However, neither could be equated with the comprehensive policies upheld in the US such as the Anti-Commercial Bribery Law and FCPA. Therefore, present regulatory conditions in China are substantially weaker than and under-enforced compared to their US counterparts. In addition, the narrow breadth of China's current policies against commercial bribery limits their efficacy against more complex and elaborate instances of corporate corruption, particularly those aforementioned indirect forms of bribery. As these practices increasingly undermine the integrity of China's corporate environment, China's need for corporate regulation and anti-corruption legislation is becoming more urgent. An anti-commercial bribery law must be addressing the prosecution of criminal, civil, and administrative misconduct, regulation toward transparent and consistent accounting practices, and more stringent auditing and reporting systems must be introduced and enforced on multiple levels.

An analysis of local cultural practices is required to put things in perspective. Many scholars emphasize the importance of relationships or *guanxi* within a Chinese context characterized by weak institutional support and imperfect market competition (Bian, 1997; Millington et al., 2005; Tan et al., 2009). However, the emphasis on gift-giving and *ren qing* (favor exchanges), which are critical in maintaining *guanxi*, has made it difficult for foreigners to distinguish between accepted cultural practices and corruption (Steidlmeier, 1999; Ying, 2002). Moreover, the absence of clear legal stipulations and weak legal enforcement has opened many avenues to encourage corruption. The crux of this conflict lies largely in the differing attitudes between Western and Eastern organizations toward *guanxi* and relationship dynamics in conducting business. Interpretation of *guanxi* as an accepted and fundamental principle of Chinese business may lead MNC management to suffer the same pitfalls as Chinese managers when they faced with the ethical ambiguity of utilizing

less-than-transparent relationships in their business dealings. Similarly, foreign corporations viewing *guanxi* practices as inherently unethical or corrupt may view the widespread prominence of *guanxi*-based business tactics as a green light to employ similarly ambiguous standards in its own operations.

Product safety and consumer protection in developing countries lead to similar dilemmas. MNCs tend to adopt double standards in their CSR policies, invariably employing more lax, substandard ethical practices with local consumers in the MNCs foreign market. One of the chief causes of CSR discrepancies between a MNC's host country and those employed in developing countries is the absence of regulatory guidelines and legal supervision for foreign companies. The role of consumer advocacy legislation in consumer settlements is particularly evident in Case S. Not only did Company S deny any compensation to consumer claimants for faulty products, but the company refused outright to assume any liability for harms rendered to consumers. The company also concealed knowledge that known disk flaws and manufacturing imperfections would lead to data loss for users. In contrast, when confronted with consumer complaints in the North American market, the same company agreed to offer 500,000 American users a total of $1.05 billion in compensation for damages caused by the identical glitch, rationalizing these dramatically different courses of action on the basis of different strategic attitudes toward consumers as a result of China's regulatory environment for consumer protection. The rights of Chinese consumers are not yet upheld by concrete laws or regulatory agencies comparable to the Consumer Protection Act of 1987 in the United Kingdom, and the role of the Federal Trade Commission in the US. In the cases of Q and R, prior to taking more extreme action in confronting the MNCs on a public relations level, consumers attempted to sue the automotive manufacturers. However, it proved to be problematic to even sufficiently identify the corporate affiliation and degree of culpability to the degree required by existing legal standards.

Weak enforcement and monitoring mechanisms

Although the presence of comprehensive legal and regulatory systems is essential to CSR practices, the capacity to enforce these laws and regulations and to monitor corporate behavior in foreign markets is also critical to ordered business activities. Guthrie (1998) confirms that the emergence of a rational-legal system, at least on the state level, has begun in many fundamental ways, defining and shaping economic and social action in China. However, of greater significance than the construction of state-level institutions are the ways in which regulations are adopted and enforcement is respected by economic and social actors. This is an incremental process taking a significant amount of time.

In Case H, 33 MNCs – including some Fortune 500 companies – have been blacklisted by a Chinese NGO, the Institute of Public and Environmental Affairs, for violation of Chinese environmental protection regulations. These firms emitted substandard waste water, undertook unauthorized construction, and produced environmentally detrimental emissions. Some MNCs blame internal political instability, arguing that "[t]he success of China's economic reforms came from the decentralization of power to local governments, it meant that local governments are motivated to make money from industries they controlled. There are no incentives for them to regulate pollution in sacrifice of revenue" (Spero News, 2006).

In order to attract foreign investment and reduce barriers to entry for MNCs, the power of relevant environmental protection departments and agencies is often purposefully undermined by local governments. Furthermore, Western MNCs with strong track records in CSR in their domestic markets often have unchallenged credibility and "privileged" status in the host country. This phenomenon of accepting MNC reputations in their home markets as "passports" to doing business abroad is described by Su and Littlefield (2001, p. 206):

> [T]he Chinese will perceive greater trust and commitment of these Western companies in addition to their tangible help to China's economy; the Chinese government tends to treat these companies well by giving many incentives … interestingly, Chinese consumers have become loyal to these companies by becoming more confident in buying the products and respecting their business ethics. The Chinese are often very proud of their employee status in or having contacts with these companies.

When being interviewed during this environmental investigation, some local administrative staff admitted that they assumed these Western MNCs behaved inherently better, such that they relaxed supervision and monitoring over them. The widely perceived superiority of MNCs in developing countries contributes to the entitlement or indifference of MNCs to questionable ethical practices in less developed host nations. Also, in cases N and O, when the products of both companies were found to be dangerous, the companies made use of elevated reputations in their host countries to firmly deny the accusations brought against them, insisting that their products complied with international standards and asserting this superseded compliance with local standards. This case is similar to cases of Q and R, whose initial reactions were those of contempt or indifference to complainant consumers. These firms used their corporate reputations as evidence against the validity of Chinese consumer claims. It was only through media exposure, pressure from increasingly dissatisfied consumers, and engagement of local administrative bodies that Companies Q and R began to assume accountability toward their Chinese consumers.

In order to attract foreign investment, many local governments in China grant privileges to and even collaborate with MNCs in circumventing regulatory guidelines. As a result, MNC entry into host countries severely compromises CSR standards. Even for those government bodies attempting to implement more rigid legal constraints on MNC business practices, enforceable penalties, and legal consequences are most often too benign to truly deter the worst offenses. For example, case O presents Company O's use of misleading marketing in the Chinese market. The company received only a modest fine of ¥200,000 – hardly ''a drop in the bucket'' compared to that firm's US$2 billion in annual sales. In contrast, the US's advertising and trade regulations operate effectively ad deterrents and enforce preventative legislation. The FTC's close collaboration with the US Department of Justice reinforces its effectiveness, whereas the Chinese legal system lacks the support of independent trade regulating agencies.

This conspicuous problem of weak enforcement measures and poor governmental cooperation with monitoring organizations is particularly evident in the protection of labor standards in China. Among the largest MNCs operating in the Chinese market, the most notable of which is Company B, foreign corporations vehemently refuse to set up trade unions or allow their workers to organize despite the presence of Chinese labor laws calling for union preservation and granting some degree of worker entitlement to collective bargaining. This disregard of host nation labor policies is particularly blatant. Trade organizations such as the All China Federation of Trade Unions have issued repeated warnings and threats of punishment toward MNCs – including one of the largest retailers in the world – to no avail (ACFTU). The lack of enforcement measures and supporting agencies against MNC's labor violations leaves few means of confronting outright criminal labor practices, much less address the more subtle inequities in MNC labor policies.

External pressure from other stakeholders

Third-party monitors such as NGOs contribute to pressuring MNCs to uphold ethical business standards. With steps being taken to strengthen China's policy conditions on an institutional level, scholars are beginning to examine other key stakeholders active in promoting CSR. As noted by Campbell (2007) and Jeurissen (2004), other stakeholders such NGOs, international organizations, consumers, media, industrial associations, and unions play an active role in promoting socially responsible practices. As a result, these stakeholders are expected to hold a significant role in fostering CSR in China and facilitate and supplement the formulation and enforcement of laws and regulations.

Through the process of collecting the cases illustrated in Table I, I became aware of an interesting phenomenon common to all of the scandals documented: they had all been exposed by either NGOs or investigative reporters. These independent parties were responsible for the ''whistle blowing,'' after which the incriminating evidence against the offending MNCs spread rapidly on the Internet through news portals, discussion forums, blogs, and other electronic media outlets, resulting in heightened pressure on the implicated companies from consumers and other stakeholders. Many scholars have argued that the role of stakeholders as

watchdogs enhances corporate transparency and increases the costs of unethical practices, which in turn encourages institutional (Monshipouri et al. 2003). Evidence suggests that corporate behavior has become increasingly influenced by the effect or threat of public stigmatization, which can result in a tarnished reputation, the erosion of trust and consumer confidence, lowered brand equity and a decline in sales. By raising the social and practical cost of ethical transgressions, stakeholders successfully engage MNCs in a cost/benefit calculus (Falkenberg, 2004; Monshipouri et al., 2003).

MNC global supply chain management

More and more companies are either sourcing products directly from overseas suppliers or relocating their plants to lower cost markets. New pressures from shareholder scrutiny, international organizations, governments, NGOs, and consumers have forced companies to make serious efforts to ensure ethical behavior and practices employed by their suppliers and business partners in their extended global supply chain (Arnold and Bowie, 2007; Arnold and Hartman, 2006; Roberts, 2003).

Countless international firms have begun to focus on their corporate culture, with the creation of codes of conduct and a tightening of labor practices, coupled with public relation campaigns to publicize such changes (Krueger, 2008). Over the past decades, MNCs have initiated various forms of ethical codes of practice and CSR programs in their supplier or partner factories in less developed countries. International codes and standards dedicated to ensuring protection of human rights, labor rights, environment – such as the UN Global Compact, the Global Sullivan Principles, the OECD Guidelines for Multinational Enterprises – have increased (Frederick, 1991). However, these international codes of practice and guidelines have come under fire for being largely unenforceable and voluntary in nature, and being often used as public relations pretexts. Activists in the area of corporate responsibility and responsible globalization have argued that although these internationally recognized codes of conduct do provide a first step in establishing a broader ethical supply chain, efficacy is contingent on meaningful implementation, auditing, and reporting frameworks to reinforce ethical practices (Neef, 2004).

As Krueger (2008) pointed out, while Chinese firms may formally agree to such ethical practices as a condition for continued business contract, agreement may not ensure compliance, as "[t]hey may have little inherent interest in complying with such labor practices. They may conclude that they entail inordinate financial cost, or may be difficult to implement culturally. Or they may conclude that a weak compliance and auditing system makes enforcement weak or non-existent …Chinese suppliers can be faced with different labor standards for different corporate clients, creating confusion and high cost of compliance" (p. 115). Cases A, B, and C serve as illustrative examples. As noted by a supplier to Company B, "total compliance with national law or corporate codes was just impossible to cover the buyer's (Company B) demanding price." Since contractors and factory managers are generally given substantial notice prior to an inspection by a labor and ethics monitoring body, factory owners often prepare for these inspections by training and coaching favorable responses from employees. Workers will often be coerced by management into giving "correct" answers to inspectors and providing the appearance of ethical operations to gain approval. As there are likely no labor unions in the factories in question, management is able to punish uncooperative employees. Violations or penalties brought against the factory by inspectors will usually result in fines or dismissals of employees deemed responsible for conveying a negative impression of the factory. The example of Company C demonstrates that even in the rare instances in which a labor union is in place within a factory, but most workers are intentionally not informed of its existence, let alone aware of whether they are members.

An integrated approach to managing global supply chains would cover four areas: formulation of a code; understanding of the code by employees and suppliers; implementation; monitoring, feedback and improvement (Krueger, 2008; Mamic, 2005). Developing a cogent code of ethics involves negotiation with employees, unions, workers' representatives, as well as primary firms in the specific industry, and industry associations representing local suppliers. Multiple levels of training and communications are necessary in the process of educating and

informing employees and suppliers of ethical guidelines. One common mistake MNCs make is to assume that contractor factories will obey their codes of conduct in the absence of any appreciable supervision or enforcement. When contractors' and subsidiaries' blatant violations of these codes of ethics are exposed, MNCs will often immediately terminate their contracts. Although MNCs are quick to terminate relations with offending contactors, their failure to provide effective supervision, training, and the necessary guidance to contractors in successfully implementing ethical codes of practice is also relevant. Rather than proactively work toward implementation, these MNCs tend to disengage abruptly, and grant substantial autonomy to subsidiaries and contracted manufactures soon after the establishment of a contractor relationship, only to abandon them without commitment once faced with publicized scandals or evidence of ethical violations. These contractors are restricted by limited resources, an inadequate institutional environment, a lack of knowledge of the codes, and lower ethical awareness. However, some of the aforementioned suppliers still have potential to improve their ethical practices and develop into upstanding operations, if reinforced by practical commitment and supervision from MNC's. Furthermore, previous research suggests that, at the supplier factory level, external buyer influence from MNCs is the main determinant of the adoption or instigation of contractor ethical programs among suppliers lacking their own ethical programs (Mamic, 2005). A combination of internal implementation with an external monitoring system is increasingly necessary as MNCs recognize the effects of stakeholder pressure alongside internal needs for clearly defined ethical guidelines within the global supply chain. Through third party auditing by independent agencies, NGOs, and even competitors in the same industry, Company C was compelled to publicly disclose its supplier list. It is these external pressures for accountability from a variety of stakeholders that greatly enhance the chances for transparency of the monitoring. The successful efforts of non-profit NGOs and international monitoring and advocacy organizations such as the Fair Labor Association and the Workers Rights Consortium in promoting supply chain transparency and enforcing equitable labor standards serve as compelling evidence to the efficacy of NGOs.

Many researchers have suggested the most effective means of facilitating increased CSR is through corporate peer pressure from industrial associations and industry-wide ethical standards (Campbell, 2007; Krueger, 2008). Industry environment can be a major determinant of the awareness of and orientation to social responsibility at the firm level as actors within industries tend to look to each other as ethical action reference (Honeycutt et al. 1995; Jones, 1999). This introduction of industry-wide momentum toward advancing CSR practices to maintain competitiveness also serves to combat the effect of the "race to the bottom" – the observed phenomenon of competition among various agents leading to a progressive spiral of deregulation and continuously eroding ethical standards (Kelly, 2002).

Moreover, working proactively with NGOs can play a crucial role in the effective enforcement of codes of conduct. As discussed above, NGOs provide a platform for MNCs to leverage their influences over contractors and suppliers through collaborations with other companies (Santoro, 2003). By working in cooperative initiatives with NGOs and labor rights advocates, MNCs can coordinate with other companies in the same industry and amplify their influence over suppliers, or even change the outlook of the whole industry in the long run. This multifaceted strategy ensures that MNCs are compelled in their actions not only by international pressure to uphold CSR, but also intra-industry demands to make their CSR practices more competitive.

Concluding remarks and implications

The prevailing institutional environment and CSR among MNCs in China is representative of the process of economic transition that has left cultural values, ethics, norms, and institutions in a state of flux. As China continues to be emerging as a global economic and cultural power, the international business community will have a vested interest in the future of China's business environment. This article, through cross-case studies of the CSR activities and business ethics violations on the part of MNCs operating in mainland China, has established once again that MNCs often adopt double standards in their operating policies and fail to uphold the social

responsibility practices of their host countries in transitional economies. The regulatory and pre-existing ethical conditions in China have proven inadequate and contribute to this troubling phenomenon. This effect is compounded by an institutional environment in the host country that readily offers loopholes for MNCs to exploit. MNCs exploitation of these substandard ethical practices and institutional weaknesses, and instituting negligent management over their downstream supply chains, make the MNCs themselves responsible for these conditions.

Simply said, for MNCs to ''do as the Romans'' when entering an emergent economy and employ ethically questionable practices is to neglect the complexity of their roles and privileged status in the global community. Even in the absence of strong regulatory pressure, local firms could have looked to influential sources in the environment for an indication of appropriate behavior (Leong et al., 2004) (reference missing), and subsequently adapt to the standards of their peers. As demonstrated in literature, the bandwagon and mimetic effect contributes to the diffusion of organizational practices in host country have profound impact on MNCs as well as on local firms (Xia et al., 2008). Since MNCs both command economic power and assume ethical duties as esteemed foreign corporations, the responsibility lies with them to shape the ''ethical environment,'' and lead by example to positively facilitate the nation's economic and institutional transition. In brief, in the highly competitive global economy, increasing demands for transparency make ethical practices less of a choice. Corporate social ethics are undeniable, moral, and economic necessities not only for the MNCs in question, but also for the governments, societies, and the individuals as key stakeholders in host transitional economies. Only through concerted efforts on the part of MNCs, can host nation governments and stakeholders uphold ethical standards.

However, if such a prospect seems cynical, then it only reflects the stage of China's economic development and transition. It has hardly been three decades since China began its economic reform. The institutional environment in China is still under development and, the practices of CSR in China have only been introduced in recent years, a reality highly consistent with those common to early-twentieth century America. The decentralization of state control in the past 30 years in China constitutes a similar frontier for expansion as that which fueled the United States' rapid economic growth in what was called the ''Gilded Age.'' The competition to bid for railway contracts involving kickbacks to people of power was notorious in that time. Furthermore, China's situation today parallels the United States' infancy in the international community at the time. America had passed the greater part of the nineteenth century in relative isolation from world affairs, separated by, among other things, protective tariffs. Economic as well as cultural maturity in the global community necessarily follows the lowering of trade barriers, as seen recently in China's entry into the World Trade Organization, which will likely lead to the diffusion of ethical practices as well. This as well as progress in the domestic institutional environment should promote a coevolution in business practices similar to that of developed economies. For this reason, China offers a fascinating research opportunity to examine the interaction and coevolution between institutional environment and firm CSR strategies in stages (Tan and Tan, 2005).

Following this line of reasoning, scholars and practitioners should have sufficient reasons to be cautiously optimistic as governmental regulatory bodies, multiple stakeholders and firms, both domestic and foreign, will interact constructively to reshape the institutional framework and elevate CSR standard over time.

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