

# Beyond Credibility of Doing Business in China: Strategies for Improving Corporate Citizenship of Foreign Multinational Enterprises in China

Maria Lai-Ling Lam

**ABSTRACT.** This study examines the perceptions of Chinese executives concerning corporate social responsibilities in their Chinese subsidiaries of foreign multinational corporations in China. These Chinese subsidiaries are found in the elementary stage of corporate citizen development even though their headquarters are in the advanced stage. The key challenges of moving Chinese subsidiaries to be better corporate citizens in China are specific Chinese business culture, intellectual property rights, internal due process, insufficient Chinese government support, and lack of knowledge of Chinese subsidiaries. Through this study, foreign multinational corporations need to invest in social capital that facilitates the transfer of knowledge of comprehensive corporate responsible practices from the headquarters to their Chinese subsidiaries, and to encourage their Chinese subsidiaries to be more actively engaged with external business partners that support corporate social responsibility.

**KEY WORDS:** Chinese subsidiaries, corporate citizenship development, corporate social responsibility, institutional approaches, multinational enterprises in China, organization learning

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*Maria Lai-Ling Lam got her B.A., M.B.A. and M.A from the Chinese University of Hong Kong, Ph.D from George Washington University and is now the associate professor of business administration of Malone College, Canton, Ohio, U.S.A.*

## Introduction

Multinational enterprises (MNEs) can be effective vehicles to increase the awareness of corporate social responsibility and improve corporate social responsibility (CSR) practices of their affiliated companies and suppliers in China by being self-regulating (Christmann and Taylor, 2001; Meyer, 2004; Murdoch and Gould, 2004; Tateisi, 2004). It is a challenge for Chinese subsidiaries and foreign MNEs to take social responsible actions that “benefit society beyond the requirements of the law and the direct interest of shareholders” (McWilliams and Siegel’s definition of CSR in 2001) in a transient economy in which there are neither strong nor well-enforced state regulations nor strong private independent organizations as in China to monitor the behavior of MNEs. Although many foreign MNEs have publicized their progress of corporate social responsibility or sustainable development in their annual reports in their web pages, there is no specific description about their practices in their Chinese subsidiaries. Many local Chinese customers seldom consider environmental and safety issues seriously in their buying decision and in turn do not exert much pressure on these Chinese subsidiaries of MNEs. CSR in China is mainly driven by the government and not by civilians. Will MNEs in China comply with the norms of CSR actions only when they are legally mandated by their global supply chain partners?

This study is designed to examine the perceptions of Chinese executives about CSR and to explore possible institutional changes and organizational transformations of foreign multinational enterprises in advancing the development of CSR in China.

Chinese executives must be integrated and display internal consistency with MNE parents and accommodate distinctive Chinese business environments in their operations (Bartlett and Ghoshal, 1987; Farley et al., 2004; Lam, 2000). They can better induce the local government when their subsidiaries depend more on local government or state-owned enterprises as their suppliers or customers (Sanya and Samanta, 2004). The study will facilitate developing better conditions for Chinese executives to learn and to develop foreign MNEs to be better corporate citizens in China.

Mirvis and Googins (2006) present a normative five-stage path (elementary, engaged, innovative, integrated, and transforming) in the development of corporate citizenship. In the elementary stage, firms focus only on economic responsibility to the society and legal compliance. In the engaged stage, the citizenship concept stresses philanthropy and environmental protection. In the innovative stage, companies broaden their knowledge and capacities to plan, fund, and launch citizen-related programs. In the integrated stage, companies develop integrative structures, processes, and systems to implement their values of corporate citizenship. In the transformative stage, companies show deep commitment in their stated values and work closely with partners to address societal problems. Foreign MNEs are challenged to create credibility of their Chinese subsidiaries in the elementary stage, to develop the capacity of their subsidiaries in their engaged stages, and to sequentially deal with coherence and commitment of corporate social response practices in the advanced stage of corporate citizenship of their Chinese subsidiaries.

## Methodology

The researcher 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. In 2006, 11 Chinese executives from nine foreign MNEs were interviewed. Ten of them are working in multinational corporations (i.e., company #A-#I), which

fulfills the criteria of practicing global business citizenship based on the analysis of the characteristics of codes of conduct and their CSR programs listed in their companies' web pages (Logsdon and Wood, 2005). Seven of them are responsible for purchasing, sales, and marketing with companies in China. Ten of them are holding middle level managerial positions and one is at senior level position. Each interview was conducted in each interviewee's native tongue and lasted from 1 to 3 h. The approach was to structure the interview to cover four main sections and to encourage interviewees express their opinions or feelings. The first section contained personal matters: years of experience in foreign multinational corporations and present job, its nature, and key customers or suppliers. The second section included internal practices: company's code of conduct, international standards, implementation of CSR programs, CSR strategies and programs, and internal due process. The third section emphasized the impact of their company on competitors and the Chinese community: corporate socially 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 socially responsible programs in their companies. In 2007, she studied ten American MNEs' CSR reports and invited their Chinese executives to fill out a survey about CSR in China through e-mails. These ten American MNEs had received many corporate citizenship awards in China.

The researcher's field work in eight cities of China, including Chongqing, Dalian, Shanghai, Beijing, Qingdao, Zhejiang, Nanjing, and Hong Kong during May, June, and July of 2006, and May and June of 2007, afforded her the opportunity to talk with many people about their expectations for these MNEs. She also read published Chinese documents, articles, and Chinese students' dissertations about corporate responsibility and multinational corporations. The researcher also asked her Chinese graduate students in Chongqing University, Dalian University of Technology, and Qingdao University of technology about 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. Of 150 graduate students, 50 were working for state-owned enterprises and seven were working for foreign

MNEs. Several graduate Chinese students also shared their working experiences in these foreign MNEs. The author sought to validate her findings by talking with more than ten American executives coming from these American MNEs in professional conferences in New York, Chicago, and Philadelphia during 2007.

### **At what stage of corporate citizenship development are foreign MNEs in China?**

The study shows that nine Chinese subsidiaries from different industries are in the elementary stage and toward the engage stage according to the stages of corporate citizenship development described by Mirvis and Googins (2006). The key drivers of these MNEs to be corporate responsible are their own companies' initiatives, accountability to their partners in the global supply chain, and the requirements of Chinese laws. These Chinese subsidiaries have not yet seen their responsibilities beyond their legal requirements and their immediate stakeholders, and there is a great gap between headquarters' and subsidiaries' attitudes towards CSR. Eight MNEs' headquarters represent the modern view of CSR, while their Chinese subsidiaries represent the classical view of CSR. A modern view of social responsibility is "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 p. 36). A classic view of social responsibility 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 p. 36).

The Chinese subsidiaries' responsibilities to society are mainly to achieve economic objectives. In addition, many corporate social response practices seem to be converging to a more common universal form across these subsidiaries. These practices are centralized internal operation control of subsidiaries and similar charity work, which is welcomed by the local and national government. The corporate socially responsible actions of these Chinese subsidiaries are mainly driven by the fulfillment of the requirements of Chinese laws and their economic return and efficiency objectives of Chinese subsidiaries.

Ten American multinational corporations coming from different industries, including telecommunication and health care business, were found not developing integrative structures – process and systems to implement their values of corporate citizenship in their Chinese subsidiaries listed in their corporate social responsibility reports. Social accountability was narrowly defined as a process of documentation and reporting rather than broad relationship management. Their description of corporate social responsibility programs in China demonstrates that philanthropy was a way to develop harmonious relationships with the Chinese government. Their strategic intent was to seek legitimacy to operate in China. However, seven interviewees from five American MNEs perceived that their companies' corporate social programs were superficial public relationships in China and were not proud of their MNEs' practices. These social programs were used to develop harmonious relationships with local communities and the Chinese government in reciprocation for operations in China. This reflected that the external corporate social responsible programs had little or no impact upon these interviewees' learning and morale. Some successful corporate socially responsible programs were not related to their corporate strategies or embedded in their corporate culture. Their subsidiaries in China were in the elementary stage of corporate citizenship and focused on economic responsibility to the society and legal compliance. There was lack of integration between the values proclaimed in the public and their practices in organizations. Foreign MNEs tended to focus on minimizing financial risk and complying with the legal requirements rather than managing CSR.

Although eleven interviewees had gone through the rigorous recruitment and comprehensive ethical training processes given by their foreign MNEs in China, their interpretation of corporate social responsibility was quite similar to the norms of Chinese entrepreneurs found in a national survey of 4,568 Chinese managers in Chinese enterprises (Report of Chinese Entrepreneurs Growth and Evolution, 2007). Ten out of eleven interviewees perceived that the responsibility of enterprises was to pay taxes, follow laws, provide employment, and develop capital for future growth. In the national survey, many Chinese managers perceived that good

foreign multinational corporations had much experience in developing corporate social responsibility as their corporate strategies. However, seven interviewees who were working for five “good” American MNEs, could not comprehend how their areas of sales and marketing relate to the values of CSR. They perceived that corporate social programs should be done by their human resources department or a few high-ranking staff members. The values of corporate social responsibilities were not integrated with their functional strategies, performance appraisal, and reward structures.

Eight foreign MNEs were more responsive to the industry market pressure than other stakeholders. For example, when one American MNE in telecommunication industry lost market share, the MNE deeply cut the cost of operation by exercising more centralized control and stopping the development of local Chinese talents in the design process. These Chinese executives were expected to maximize economic return and efficiency in China. One interviewee’s marketing department was compelled to fire 10% of the staff each year, and the moral values of the staff members were not important in the final decision. The interviewee was working in an American MNE that had claimed its integrity and universal moral values in its CSR report.

One interviewee used a case of a Singapore subsidiary of his own American company to illustrate how this headquarter sought to present a good image in front of its key shareholders without receiving any complaint from the powerless employees. His American company in Singapore promised to give dormitory room to their employees in their contracts. When the American company failed to set up a dormitory that fulfilled the American safety standards, a group of employees were dismissed for other reasons so that the company did not need to deliver on its promise and face the criticism from their activist shareholders for the inferior dormitory.

### **What challenges do foreign multinational enterprises and Chinese subsidiaries face in the development of corporate social responsibility in China?**

It is challenging for foreign multinational enterprises when many interviewees do not recognize the need

of corporate responsibility training, do not appreciate the values behind their companies’ corporate social responsibility, do not relate their quality of life and personal development to their companies’ CSR, and do not know the reasons behind their policies and safety standards. When these Chinese employees use the classical view of CSR as their frame of reference, they demand more monetary incentive when they carry out CSR programs. It is very difficult for Chinese employees to develop some local corporate social response programs without some financial rewards. Many line managers cannot see the relevance of corporate social responsible programs to their jobs when they want to fulfill many competing, short term goals. It is a challenge for MNEs to develop a culture that Chinese employees can articulate a comprehensive view of corporate social responsibility and relate their performance to successful corporate social responsible programs.

Eleven interviewees perceived that their subsidiaries had to deal with problems, such as specific Chinese business culture, problem of intellectual property rights, problem of internal due process, and lack of government support in the process of being engaged in a wider scope of corporate social responsibility. They were overwhelmed by engagements with many stakeholders in getting their job done! They all 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 perceived that the difficulties of adopting corporate social responsibility were their busy work schedule and specific Chinese culture. Some interviewees tended to trust their external partners in their industry more than their Chinese subsidiaries and preferred to comply with the standard norms set by external partners. They had to develop harmonious relationships with their colleagues, government, and community in China. Many line managers could not see the relevance of corporate social responsible programs to their jobs when they wanted to fulfill many competing, short term goals. These Chinese employees were willing to seek short term economic growth at the expense of environmental protection or labor rights. They

could not see the possibility of inviting many stakeholders to respond to local demands as their responsibility and could not see responding to local demands as an important competitive strategy.

Many foreign MNEs have already increased their cost of operation and put themselves in a disadvantaged position in a very price-competitive market when they follow the Chinese labor law in a system with very weak legal enforcement. The additional investment in broad based CSR will not only increase the cost of operation but also create more challenges to Chinese employees. It is very difficult for foreign MNEs to collaborate with good local non-government organizations when many CSR discourses and practices are organized by the government rather than civilians. The Chinese government is unwilling to provide tax incentives to many companies' charitable actions and to approve many non-government organizations as legitimate ones. Other challenges are: specific Chinese business culture, problem of intellectual property rights, problem of internal due process, lack of Chinese government support, and lack of knowledge of Chinese subsidiaries.

#### *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 20 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 a good salary and monitoring their behavior. My people will not be motivated to submit false documents. There are many subtle elements in entertainment. A 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 a rebate. My approach is to ask them to write a cheque of RMB

1 million before I will give them any rebate. Then they will stop.

Interviewee #4 told the researcher 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 the 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 so that he could build better relationships with the Chinese government officials.

Interviewee #8 adopted local Chinese practices and gave a rebate to all Chinese clients 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 that has poor ethics.

#### *Problem of intellectual property rights*

Dealing with intellectual property rights is a very delicate issue. Large companies such as company #A, #B, #C, and #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 its 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.

Interviewee #3 told the researcher that his American 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 my 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 would not fight against these small local Chinese enterprises directly and preferred to advocate the issue of infringement of intellectual property rights to the Chinese official organization, which was 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. Nielsen (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 the researcher that his company's policy only encouraged fraud because no one

wanted to challenge the system. For example, his company provided RMB 200 meal allowance and RMB 10,000 transportation allowance each month. The company adopted the factory operation model in his sales office and assumed that each staff would have lunch in its factory canteen. The huge transportation allowance was reasonable when there were not many private cabs in Beijing 10 years ago. Now, it was impossible for his staff to spend so much money on transportation and so little money on meals. Many members bought 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. He perceived himself as a good boss and good colleague as he preserved and facilitated harmonious relationships with his colleagues and subordinates. Maintaining harmonious relationships is found to be a unique characteristic of organizational citizenship behavior in China (Farh et al., 2004). In general, many Chinese executives are used to embedding themselves in the network of relationships (*guan-xi*) that prohibit whistle blowing.

Many interviewees are very concerned with the regulations and policies in their corporations, but will not air their voice through the channels created by their corporations as they are afraid of losing their jobs and destroying their harmonious relationships with their colleagues. When these Chinese executives' voices are not heard or not empowered to take responsible actions, 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. 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 a 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.

*Lack of knowledge of Chinese subsidiaries*

Although some interviewees have received comprehensive ethical training from their MNEs in China, they seem not to learn the modern view of corporate social responsibility from their headquarters. The study shows that expatriates from their American headquarters have very high turnover in the Chinese subsidiaries and the interviewees do not have a chance to reside in their headquarters for at least a year. Now, the Chinese subsidiaries' corporate structure is very hierarchical, centralized, and authoritative. Many employees are in dependent positions and are afraid to communicate their demands. There is only unilateral level of control in the present corporate mechanism. Employees can be easily fired if they express their negative feedback upon their corporate mechanism. There is no reciprocal integrity since these employees do not know how to exercise their rights to access information or institutions to express their concerns to the organizations. The intuition and interpretation of local members in the Chinese subsidiaries are driven out by the corporate structure. Furthermore,

there is high level of mistrust between Chinese employees and foreign institutions. Some interviewees always question about the policies of their subsidiaries and do not understand the values behind some basic socially responsible practices such as safe and health issues. They tend to trust their external partners in their industry more than their Chinese subsidiaries and prefer to comply with the standards or norms set by the external partners. The study shows that there is lack of learning by Chinese executives about the headquarters' modern view of corporate social responsibility when their MNEs are not good at investing in social capital that facilitate the transfer of comprehensive corporate socially responsible programs from their headquarters to their Chinese subsidiaries. MNEs and Chinese subsidiaries can be easily complacent with their superior brand equity in China and will not be motivated to change the market rules by adopting a modern view of corporate social responsibility.

**What are possible organizational transformations and strategies for foreign multinational enterprises in the process of moving the Chinese subsidiaries from the elementary stage toward an advanced stage of corporate citizenship?**

Many MNEs must know how to increase the capacity of their Chinese subsidiaries to be responsive to many issues, opportunities, and threats in their operating environment. These MNEs must know how to develop their Chinese staffs to consider and respond to issues beyond the narrow economic, technical, and legal requirements of their own firms. In a face-oriented Chinese culture, the Chinese staff have already taken up numerous responsibilities to maintain their honor and harmonious relationships with their colleagues in their corporations and their customers in the local community. Managers at headquarters and Chinese subsidiaries need to know whether it is unfair to ask their Chinese staff to shoulder more responsibilities for societies when these staff do not have political rights to exit or voice when they pursue economic opportunities. When there are pervasive corruption practices in China, it seems to be practical to limit corporate social responsibility to the fulfillment of

corporate practices and the Chinese legal and tax requirements. However, the modern view of corporate social responsibility is to be seriously addressed in their Chinese subsidiaries, not just in their annual corporate reports.

It is very important for MNEs to move their Chinese subsidiaries from the elementary stage to the advanced stage if they want to develop sustainable competitive advantage in the Chinese market by narrowing the gap between the headquarters' attitude and their Chinese subsidiaries' attitude toward corporate social responsibility. It is also important for these Chinese subsidiaries to be just institutions in which there is reciprocal integrity. Managers at headquarters and subsidiaries need to develop new skills and knowledge to diffuse the concept of social responsibility and sustainable development across different functional areas in their Chinese subsidiaries. MNEs, which are in the advanced stage of corporate citizenship in their home countries, must invest in the social capital that facilitates the transfer of comprehensive corporate social responsibility programs and their experience of developing corporate citizenship in China. These social capital entities are personnel transfer between their headquarters and their Chinese subsidiaries; low turnover of expatriates in the Chinese subsidiaries; shared visions and goals about corporate social responsible practices; accommodation of local Chinese culture and concerns of local staff; and increased trust between Chinese employees and employers in the intracorporate networks. Chinese executives can be socialized to practice greater corporate social responsibility when their subsidiaries are actively engaged with external business partners, business schools, professional associations sponsored by the Chinese government, and international non-government organizations which practice and advocate corporate social responsibility.

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 and sustainable development of MNEs in China. MNEs should promote and hire Chinese executives with values and experiences in environmental management or human rights management when "organization outcomes – strategies and effectiveness – are viewed as reflection of values and

cognitives based upon powerful actors in the organization" (Hambrick and Mason, 2001). Chinese managers have to be good role models and keep reinforcing ethical behaviors and a positive 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 know how to empower these Chinese executives and 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 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 (Accountability and Reporting Orbits, 2004). When expertise at different functional areas are engaged in the process of finding the benefits of corporate socially responsible programs to their area, they are more likely to be motivated to become involved in local community work and go beyond the narrow scope of corporate responsibility. When the headquarters and Chinese subsidiaries can discuss possible strategies and performance measurement metrics, which 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 socially 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 and Hartel, 2004). Some corporate response programs can be framed as a kind of managerial training that improves team building and cultural sensitivity. In general, many



Chinese graduates have good expectations of MNEs and expect that many MNEs can increase the competitiveness of the industry. Many Chinese employees of MNEs are teachable and are motivated to learn good managerial and organization skills in their companies. They do not know the broad range of issues related to the reputation risk of their MNEs in China. They know how to comply with corporate policies, but do not know their rights to exit and voice their opinion about the internal system. If headquarters can develop just background institutions in their Chinese subsidiaries and 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 honest feedback toward corporate social response strategies, codes of conduct, and policies. It is important to empower Chinese executives to access information and to know the reasons behind some operation procedures and safety measures.

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 established by their headquarters. They must examine their problems when they over rely on the 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 toward the codes of conduct or the modern view of corporate social responsibility. Senior managers need to develop a code of conduct that 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 incorporates those values listed in the codes of conduct and also keeps on seeking and responding to feedback from their Chinese executives. They must develop some simple approach to change the attitude of their Chinese executives from present classical views of corporate social responsibility to a modern one that can advance the stage of development of corporate citizenships of MNEs in China. Furthermore, these senior managers at headquarters or subsidiaries must examine their present internal due process in their

Chinese subsidiaries and examine how unilateral levels of control violate their organizational integrity and suppress individual intuition in their learning process. They may set up employee boards and mediator–counselor types of systems that can question the appropriateness of policies and the biases in the system that may contribute to 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 when social capital is invested; 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 the investment of social capital that facilitates the transfer of knowledge and organizational learning in the intracorporate networks.

Furthermore, the Chinese subsidiaries can learn practical practices from their customers, suppliers, and professional bodies in their industry districts when there are physical proximities to other members, linkage among various cliques, stable personal relationships, cooperative interactions, norms and rules to govern informal knowledge trading, and process-based trust embedded in social ties. When Chinese executives at subsidiaries do not trust institutionalized practices mandated by the headquarters, they become willing to learn many corporate social responsible practices from their external partners who are advanced in the stages of corporate citizenship when they experience stable and cooperative relationships with external partners in their industrial district. Thus, MNEs can make their Chinese subsidiaries to be corporately responsible if their Chinese subsidiaries are more engaged in cooperative relationships with external business partners that support social responsible behavior.

Chinese subsidiaries gradually develop good corporate responsible capacity when many Chinese executives are well-equipped to be proactive in their corporate social responsibility approach and learn how to incorporate modern view of corporate social responsibility as a kind of learning and spiritual growth (Vaill, 1996). Many foreign MNEs could facilitate mobilization by building upon pre-existing

social relations with international non-government organizations and by developing communication networks with various constituents such as business schools in China. The MNEs and their subsidiaries can move toward an organizational response to many stakeholders when they take corporate social responsibility seriously. They can also 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 be improved corporate citizens in China.

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Malone College,  
515 25th St.NW, Canton, OH 44709, U.S.A.  
E-mail: [mlam@malone.edu](mailto:mlam@malone.edu)