

Firms' Strategic CSR Choices during the Institutional Transition in Emerging Economies

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Abstract

How do organizations react to changes of institutions when they undergo fundamental transition that happen to those emerging economies? By applying Peng's two-phase model of institutional transitions to the field of Corporate Social Responsibility (CSR), this paper seeks answers to the question above. With a framework of institution theory, we focused on CSR strategies that can be selected by different forms of business organizations (incumbent, start-ups, and foreign firms) in the longitudinal process. We argued that in the early phase of institutional transition, CSR relevant institutions are still in vacuum leaving social responsibilities to the firms' discretion. However as the market moves to more rule-based, CSR institutional pressures are also strengthened in regulative, normative and cognitive ways. Then, we draw our propositions on CSR strategic choices for incumbent, start-ups and foreign firms, respectively. By doing so, this study expanded understanding of strategic perspectives of CSR literature in academic for policy makers of emerging countries as well as practitioners of the different forms of business organizations.

Key Words: Corporate Philanthropy, Incumbent Firms, Entrepreneurial Start-ups, Foreign Firms.

Introduction

More and more firms make socially responsible actions with a strategy. Some monograph supports that a firm's strategic performance is better linked with its financial performance than just altruistic or philanthropic activities (Campbell, 2007). As such, firms try to combine both their profit and society's benefit through economic operations. Of all kinds of economic operations are influenced by institutions (Koos, 2012). Especially for CSR, Scott's (1995) explanation of regulation system with three pillars of regulative, normative and cognitive perspectives develop how a firm should react to socially responsible actions appropriately. Consequently, together with the rise of CSR research, many scholastic interests shed light on the institution theory as a frame work to understand the field. Moreover, the modern development to apply institutional theory in understanding CSR is quite new phenomenon (Brammer et al., 2012, Campbell, 2007; Matten and Moon, 2008; Kang and Moon, 2012). However, most of the works focus on relatively stable institutional environments. When the society experience transformation of its institutions according to their economic developments, the responsibilities that the society requires for a firm to fulfill also become under the influences of changing institutions.

Institutions fundamentally transform when a country undergoes a subversion of social system, or unprecedented economic growth. This research elaborates institutional pressure for CSR and how

institutional transitions affect CSR strategic choices in the case of emerging economies. In this research we borrow two phase model suggested by Peng (2003) to elaborate the institutional transition by segregating them into two phase's namely early and late phase of transitions. The difference here is we suggest that CSR strategies are also different in these two phases due to the cost and benefits related to CSR differentiate these two phases. We suggest institutional transition emphasizing on longitudinal development of CSR strategy to be more rule based by firms who effectively manipulate and control their capabilities and resources which are valuable, rare and not easily imitated without a perfect substitute available to generate sustainable competitive advantages. In emerging economies the Resource Based View (RBV) and institutional theory are more relevant due to firms' specific capabilities as argued by Peng (2003).

Inherit CSR comprises the society feature as shown already in label of CSR concept; many researchers thought to understand the 'social' responsibilities of businesses, institutional theory act as a center of theoretical root all along for CSR. Vogel (2006) discussed a strong normative argument about the powerful attraction for CSR in business case is a significant fact up to level that social science is capable to show the continued market existence for desirable quality and leads the managers of corporations to act in further responsible behavior. Firms are the necessary and central player in starting socially desirable behavior on the behalf of business to conceptualized and studied CSR that has been institutionalized, especially within business schools. Whereas general explanation of CSR comprise obligatory responsibilities, for instance compliance with regulations, create a situation for societal prospect or a persistent idea in the field of CSR discussion as foundation in the voluntary actions of firms (Carroll, 1999). Vogel (2006) explained CSR as expressions of practices that advances and better the place of work also promote societal causes in ways that are above what firms are obligatory under the law to do, Institutional theory come into view right at the centre or a core concept of what CSR is all about in its very definition after all.

In the following chapters, we briefly introduce the burgeoning CSR research in business academics and discuss CSR and its strategic perspectives, followed by institutional embeddedness of CSR. This paper's highlight comes next, as we develop propositions on different CSR strategies according to the different forms of business organizations in the institutional transition. To make such predictions, we borrowed 'two phase model' of Peng's 2003 paper that discussed institutional transition and firms' strategic choices. This study expands understanding of strategic perspectives of CSR literature in academic. It is a very timely study for policy makers of emerging countries as well as practitioners of the different forms of business organizations.

Literature Review

Burgeoning Research of Corporate Social Responsibility

There are pervasive studies now focusing on CSR from different perspectives. As the field is still fertile for experiments in theoretical, empirical tests, there is no strong consensus on a definition for CSR. Without having one outstanding academic ground, different disciplines are employed in explaining CSR. Nonetheless, it is broadly defined and adopted in accordance as a corporation's thought of, and reaction to, subjects ahead of the slight technical economic and legal obligations of the corporations to achieve societal and environmental gains together with the conventional economic benefits which the corporations looked for (Aguilera et al., 2007). Early in the 1970s, Carroll (1979, 1991) tried to conceptualize CSR and categorized its practices in four steps of pyramid. Wood (2010) reviewed literature on different measures of CSR and Waddock and Graves (1997) analyzed association between CSR and firms financial performance. An instrumental perspective of CSR such as reputation, and marketing effects, has also been examined by several scholars (Bronn and Vrioni, 2001, Maignan & Ferrell, 2004). The increasing importance of CSR also intrigued researches of corporate governance field to investigate different provisions of CSR across countries of US and Europe, where the first is dominated by shareholder interests, whereas the latter takes account for more diverse stakeholders (Moon and Vogel, 2008). Along with the studies of CSR focusing on the developed countries, monographs of CSR in the emerging country have constantly raised its volume in

both theoretical and empirical contexts (Planken et al, 2013). The international organizations also specify CSR provisions as a form of ISO26000, OECD guidelines for multinational companies, or 10 commitments of the United Nation Global Compact (Centidamar and Husoy, 2007), just name a few. Such global institutions encourage many countries, especially for the emerging economies, to participate in their move. As a result, a few prominent developing countries started central-driven CSR initiatives. For example, in China, the State-Owned Assets Supervision and Administration Commission of the State Council (SASAC) released the Guide Opinion on the Social Responsibility Implementation for the State-Owned Enterprises controlled by the central government in 2008. The Guide Opinion is a significant legal piece of paper or manuscript describing the Chinese central government's approach towards CSR practices (Lin, 2010).

More recently, India passed its amended Companies Act (the "New Act") in 2013. The most startling point of the changes is that the government is to impose compulsory corporate social responsibility obligations to not only Indian companies but also foreign companies operating in India, which came into effect as April 1, 2014 (Trade Brief, 2014). The new obligations mostly come in a mandatory amount that a company must contribute to social activities which are already listed by the government. The threshold that enforces companies under CSR obligation is quite low (e.g., a net worth of at least Rs. 5 Billion, approximately US\$80 million), so most of local and foreign firms need to prepare how to deal with new legal institutions. In short, CSR becomes more institutional arrangement that shapes national corporate governance (Kang and Moon, 2012) and business operation of all kinds. However, many companies still don't know what incorporate CSR activities into their business operation strategically (Yin & Zhang, 2012).

Strategic Perspectives of CSR

Why should a firm need to be strategic when operating CSR? It is because CSR locates in somewhere in the conflicting concepts between maximizing profits (economic perspective) and satisfying social responsibilities (ethical viewpoints) (Husted and Salazar, 2006). It is certainly not easy for a firm to maximize stockholder's profits and at the same time to comply with social responsibilities. Moreover, given the condition of a firm as an economic actor, tension arises between stakeholders and managers when they start socially responsible actions (Margolis and Walsh, 2003). Nonetheless, more and more companies attempt to pursue profits and social welfare together. For example, Sweden's vacuum cleaner Electrolux, initiated an environment sustainable campaign, VAC FROM THE SEA, which collect sea debris, mostly plastics, and make sale goods, that are vacuum cleaners. Electrolux has been ranked as the industry leader of Dow Jones Sustainability World Index since the report was firstly launched in 1999. Not only in Europe, but also in the developing countries, such initiatives can be witnessed. The Indian auto maker company, Tata Motors, introduced the world cheapest car, Nano which costs only 2,000 dollars, an equivalent price to buying a scooter in India. Even though Tata Motors experienced a financial downturn after launching the car, it overcame the crisis through an aggressive business strategy, such as M&A, and now it became Indian people's the most beloved and respected national company with high reputation (International Business Times, 2012). As illustrated above, it is critical that social investment should be carefully articulated according to the firm's mission and society's benefit to maximize its effectiveness (Porter and Kramer, 2006). When Husted and Salazar reviewed thoroughly Friedman's stakeholder viewpoints, they found that firms' greater social output can be achieved by the strategic approach, than by just an altruistic approach (Husted and Salazar, 2006).

Conceptually, Carroll (1991) suggested that four kinds of social responsibilities that compose of the total CSR: economic, ethical, legal and philanthropic. Furthermore, he made an order among these four components of responsibilities in the form of the pyramid. From the agency theory view point, economic responsibility should be a firm's foremost responsibility as it aims to produce the maximized profit of share. For legal responsibility, firms earn the legitimacy by complying with various federal, state, and local regulations. As an economic entity in society, people also expect firms to produce economic profits within the framework of law. Ethical responsibilities embrace norms, consensus of the customers and standards that does not necessarily inscribed in the law. Therefore, ethical responsibilities sometimes go beyond a

firm's legal responsibilities (McWilliams and Siegel, 2001). Even though ethical responsibilities compose a separate layer of the Carroll's pyramid, he emphasized that "it must be constantly recognized that it is in dynamic interplay with the legal responsibility category." Finally, philanthropic responsibilities require more volunteering activities to a firm. For example, firms can fulfill their philanthropic responsibilities by promoting community programs, providing financial support to raise humanitarian values of the society, and consuming employee's time and efforts to make the better society. However, consumers do not regard firms unethical even though they don't meet the desired level of philanthropic contribution, which make the major distinction between ethical and philanthropic responsibilities (Carroll, 1991).

Following Carroll's work, scholars expanded the idea of strategic CSR with different frameworks. Windsor (2006) assessed three main approaches to CSR: ethical responsibility, economic responsibility and corporate citizenship. He argued that strategic philanthropy for increasing corporate reputation and market opportunities, which is interpreted with an instrumental citizenship, largely depends on managerial discretion. Gardberg and Formbrun (2006) examined corporate citizenship program with institutional perspective and argued that strategic investment on citizenship activities can create intangible assets which is comparable to R&D investment. According to their framework, corporate social performance can be grouped by "1) range of acceptability and 2) citizenship customization" and they examined an appropriateness of corporate citizenship activities. They argued that for corporate citizen activities to become corporate competitiveness, it should generate intangible assets such as firm reputation, employee royalty, etc (Gardberg and Formbrun, 2006). In line with the intangible assets arguments, Branco and Rodrigues (2006) used Resource-based view to test strategic CSR element which brings internal and external competitiveness to a firm. Internally, engaging CSR raise employment and externally, CSR activities enhance a firm's reputations. RBV lens argue that firms who effectively manipulate and control their capabilities and resources which are valuable, rare and not easily imitated without a perfect substitute available to generate sustainable competitive advantages. They argued that firm's financial performance nowadays largely related to intangible resources like, employee morale, culture, reputation, etc. these are difficult resources to imitate. It pays to environmentally outperform or become a leader of socially responsible firms, but it brings competitive advantages to firms in the long run (Russo and Fouts, 1997, Harts, 1995).

Institutional Embeddedness of CSR

Economic actions of all kinds should be understood as embedded in institutions (Koos, 2012) Corporations nowadays cannot ignore CSR activities which are bound by national regulations, social norms and culture-cognitive expectations; that is the society's institution. This idea denotes that a firm is not a nature citizen but an "artificial citizen" who is created by law on the purpose of seeking interest (Campbell, 2007).

The theory of institution met a renaissance in its popularity in business research during the last decade. It is often discussed that the theory consists one of the tripod, which is composed together with industry and resource based perspective in business strategy research (Peng et al. 2008). Many young and renowned scholars also adopt the theory of institution as a framework to understand CSR (Brammer, et al. 2012, Campbell, 2007, Jackson and Apostolakou, 2010, Matten and Moon, 2008,) Institutional theory is about how regulations, norms and practices are formed, diffused and adopted over time. When it comes to CSR, selective institutional pressures such as those from public and private regulation, NGOs, and media that check corporate activities, and institutionalized norms about suitable corporate behavior mediate corporation's socially responsible activities (Campbell, 2007).

North (1990) described institutions as the personally devised restrictions that configure human interaction. The constraints involved both formal and informal regulations. Society acts as a ground for human interactions, Balabanis et al., (1998) discussed the importance of CSR as that firm and their managers in the recent commercial era are subjected to well publicize pressure to actively take part in the welfare of society. Scott (1995) explains the regulations system with three pillars; Regulative, Normative and

Cognitive. These pillars are almost inclusive and provide related base to each other. Institutions follow the mechanisms of rules to standardize and control the actors under regulative pillars. Normative pillars help the institutions to produce norms and values to pursue the goals. Lastly, the cognitive pillars endorse the internalization of actions and cultural for-granted values. These pillars collectively provide stability and strength to the social life.

There is a need to understand how firms adopt and reject different rules under institutional changes for them to (be socially legitimate) become socially responsible. Therefore it is intuitive for both scholars and practitioners to learn (As there is a little research regarding) how firms refuse previous approaches, learn new CSR practices and even expand new CSR strategies under the transition of institutions.

CSR in Emerging Economies

There is a serious asymmetry in the volume of research on corporate social responsibility between the developed country and emerging economies (Alon et al., 2010). Emerging economies are often described as “low-income, rapid-growth countries using economic liberalization as their primary engine of growth” (Hoskisson et al., 2000). In terms of size, the boundary of emerging economies expands to the extent of not only transition economies, such as countries in Asia, Eastern Europe, but also economies in Latin America, the Middle East, Southeast Asia, and Africa (Peng, 2003). The fall of communism in Central and Eastern Europe, China’s open market policy and national business policy reforms of Asian countries provided an exclusive opportunity for research of institutional transitions and their influence on business operation. Moreover, due to institutional upheavals in emerging economies, organizational transformations are ‘qualitatively different’ compared to those of Western or developed economies (Newman, 2000).

It is interesting to note that when emerging economies experience institutional transformation, they also receive pressures from the international institutions on environmental and sustainability development. It is because usually economic development accompanies destruction of environment (Planken et al., 2013). Consequently, policy makers of such countries and firms face institutional turbulence or even crisis (Visser, 2007) in the time of transitions. Among such papers focusing on emerging economies, some argues that CSR in emerging economies should be understood differently from that of developed countries (See, 2009, Jamali and Mirshak, 2006, Visser, 2007). Visser (2007) argued that Carroll’s CSR pyramid model need to be adapted to emerging economic context. Although business gives priority to economic purpose to maximize profit, companies in emerging countries put philanthropic responsibility in the second place, followed by legal and finally, ethical responsibilities. In line with this argument, Blowfield and Frynas (2005) pointed that in emerging countries, government, civil society and business all to some extent regard CSR as a ‘bridge connecting’ business and national development. This is a very close notion to ‘implicit’ CSR proposed by Matten and Moon (2008). When they compare American and Europe contexts of CSR, they extended the boundary of European countries to the latterly democratized Eastern Europe. As a result, they found that “implicit CSR usually comprises of values, norms and rules that end up in (most of the time compulsory but some time habitual) necessities for firms to deal matters, stakeholders regard as an appropriate responsibility on corporate actors” which can be applied to the rest of the emerging countries who transformed to democratized liberal markets.

So far, most CSR research focusing on emerging economies has been limited to state level, or industry level. Examples include fashion industry (Pedersen and Gwozdz, 2014), hotel industry (Gu et al., 2009), Lebanese case (Jamali and Mirshak, 2007), China’s case (Lin, 2010, See, 2009, Zhao, 2012, Wang and Juslin, 2009), and Africa’s context (Visser, 2007). How different firms strategize according to their organizational context during the transition of institutions largely remains unknown. During the transitions, however, firms often do not reform themselves quickly to adapt to the new institutions, instead, they express grate inertia, mere mimicry, or ignorance, causes a lot of disappointment (Stiglitz, 1999). Therefore, we focus on what firm-level CSR strategies are made during transitional institutions.

Two Phase Model

To trace firms' different reactions to changing institutions, we talk about a two-phase model of market-oriented institutional transitions proposed by Peng in 2003. Peng (2003) refers to a significant assumption of this model that "as time goes by, the economy is likely to feature more complex transactions involving more transaction parties". This phenomenon helps us to assume as time passes the institutional transactions become more complex regarding CSR strategies, as well. North (1990) explains the function of institutions is to minimize and decrease uncertainty by creating a stable and steady (efficiency is not necessary condition) formation of human interaction. The performance of the economy is affected by institutions because of their impact on the costs of substitute and production. Therefore, the institutional changes can be theorized to reduce and minimize uncertainty by shifting from one prime method of substitute to a different mode (Peng, 2003). Emerging economies are more relevant to understand such a transition due to firms' specific capabilities as argued by Peng (2003). We here focus on institutional pressure for CSR in the time of transition and how institutional transitions affect CSR strategic choices according to different types of organizations. Peng (2003) suggested two phase model to elaborate the institutional transition by segregating them into two phase's namely 'early phase' and 'late phase' of transitions. We argue that institutional transition emphasizing on longitudinal development of CSR strategy will become more rule-based by firms who aim to effectively manipulate and control their capabilities and resources that are valuable, rare and not easily imitated without a perfect substitute available to generate sustainable competitive advantages.

Figure 1 shows how cost and benefit of CSR transforms during transition times. This figure is adopted and adapted from Peng's 2003 market transition model. In the beginning the costs incurred to do CSR are high and related benefits are low because transaction firms have to incur more cost and resources to show that these firms are more socially responsible. Transition starts from T1 with high costs and low profits, and the cost starts moving down with the increasing scope of transaction expand as shown from point p1 to p3 and later from p3 to p5. On the other side benefits start increasing (from p2 to p3 and then towards p4). In this T1 to T3, regulations or provisions on CSR are still in embryonic and firms perform social programs on their discretions. Therefore, costs of performing social programs meant to be high but hard to expect government assistance due to regulative vacancy.

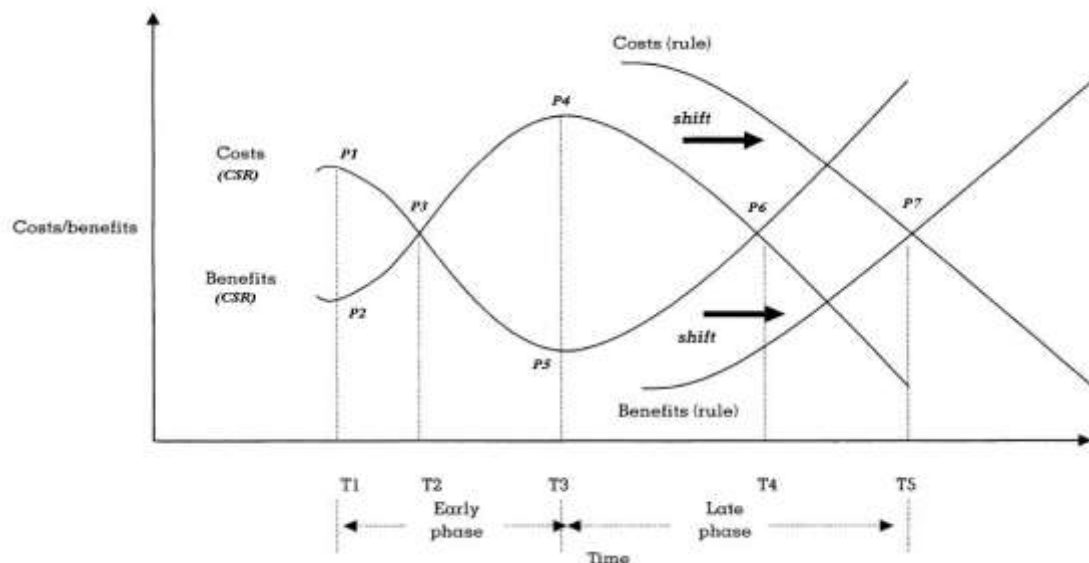


Figure1. Two Phase Model of CSR Strategy (Adapted from Peng's (2003) Model)

The cost of CSR decline up to certain point P5 while the benefits of CSR increased up to certain point P4 at a certain time T3 as shown in figure, the effectiveness of CSR has maximum at this time span. At this time of span firms focused much more formalized of rules for CSR strategies. The firm faces strong institutional pressure for CSR. The firms in late phase found strong pressure for CSR as the expectations will be high for them to be more philanthropic than in early phase. Firms in response to these pressure shifts their rules to be competitive in market by engaging in different CSR strategies e.g. if firstly corporate are more emphasized on employment related CSR, now the shifts move towards more environmental (ethical) issues as well they may respond to more voluntarily initiatives such as natural disaster (philanthropic) to show to be a good corporate citizen.

Different CSR Strategies and Different Organizational Forms

Over the years, many scholars attempted to typology firm's CSR strategies (Lee, 2011, van Tulder et al. 2009, Heikkurinen, 2010). As early as the 1970s, McAdam (1973) described four different types of corporate social responses: "fight all the way, do only what is required, be progressive and lead the industry." Later, Wilson (1975) outlined four different categories of social responsiveness of firms by using more terminology: "reaction, defense, accommodation, and pro-action." Wilson's terminology on social responses seems to be echoed by many following scholars except 'defense'. Understandably, it is hard to imagine that a firm attempt to pro-actively *defend* itself against socially responsible pressures. Even if the newly introduced provisions regarding social responsible is so unfamiliar with the firm, it may want to muddle on the practices at best, usually utilizing its established reputation or political network, resulting firms' conformance at best (Peng, 2003, Pedersen and Gwozdz, 2014). A few more examples include "inactive, reactive, active and pro-/interactive CSR approaches" of van Tulder et al. (2009), five level's of "passive, reactive, pro-active, entrepreneurial, and creative" proposed by Heikkurinen (2010), and recently by Lee (2011); "obstructionists, defensive, accommodative and pro-active." Integrated from the literature, we categorized firms' strategic reactions into four layers: *inactive, accommodation, active, and proactive*.

No matter in which context of economy (emerging or developed) the firm operates, different forms of organizations react to the national institutions with different strategy. Especially in the context of emerging economy, as the transitions evolution, more and more new firms enter the market and organizational diversity increases (Peng, 2003). In line with Peng's classification (2003), we highlight three types of organizations; (1) *incumbent firms (primarily business groups, state-owned enterprises, and privatized firms)*, (2) *entrepreneurial start-ups*, and (3) *foreign entrants*.

Table 1 Institutional Pressure for Firms to Engage in Csr Activities

Transition Phase	Regulative	Normative	Cognitive
Early Phase of transitions			
Incumbent firms	Weak	Moderate	Strong
Start-ups			
Export Oriented Start-ups	Moderate	Moderate	Moderate
Local Oriented Start-ups	Weak	Weak	Weak
Foreign entrants	Moderate	Moderate	Strong
Last phase of transitions			
Incumbents firms	Strong	Strong	Strong
Start-ups			
Export Oriented start-ups	Strong	Strong	Strong
Local Oriented start-ups	Moderate	Moderate	Moderate
Foreign entrants	Strong	Strong	Strong

During the transitions, the three major types of firms are likely to receive different institutional pressures, and this perspective paper tend to analyze them according to Scott's (1995) explains regulation system with "three pillars" (regulative, normative, and cognitive pressures), which lead to a variety of strategic choices. Nonetheless, due to the uncertainty of institutions in transition, the strategic decisions that made by firms, regardless of their types, are not always efficacy or competitive based. Many choices are made based on political pressure, customs, history, norms, and mimicry. Summarized in Table 1, we extend our arguments in the next sessions.

Early Phase of Institutional Transition

Institution changes either through incremental forms or punctuation of discontinuous transformations (Peng, 2003). Ideally, regulation, norm and culture better not change overnight to minimize the shock. They should be gradually introduced in the society over years by enlightening members of the society in incremental forms. However, in reality, due to some major incidents that influence over all society either from internal, such as China's entrance to WTO in 2001, or from external, such as international pressure on reforming organizations' structure of many Asia countries in 1997, business organizations could experience discontinuous transformations of institutions. In the case of abolishing of old institution, the society might experience a period of institutional vacuum in many areas until new forms of institutions established. Thus business organizations should act according to their own strategies to accommodate the full of uncertainty. In the early phase of institutional change, most of the governments focus on making new legislations for only economic and legal aspects leaving CSR provisions upon firm's discretion. For example, China experienced several economic and political reforms since 1978, but CSR concepts only introduced in the late 1990s which was even limited to employee rights. Only in 2006 was inscribed an explicit recognition CSR into Company Law (Lin, 2010). Therefore, in the early phase of institutional transition, CSR provisions remains largely on firm's discretion which shapes their CSR strategies more influenced by history-based normative and cultural cognitive institutional pressures.

Incumbent Firms

Incumbent firms may have a big resistance to institutional change by showing great inertia (Newman, 2000). They even tend to defend *regulative* pressures via established network (Peng, 2003, Peng and Luo, 2000, Park and Luo, 2001). Due to an enormous cost and efforts, incumbent firms try to minimize the changes through established relationship with government (McCarthy and Puffer, 1995). Change of institution is not easy for an established and especially for a big firm to adopt and adapt in a short period of time. It sometimes requires a fundamental reform, for example, restructuring, change of governance, raising welfare condition equivalent to that of firms in advanced countries. As we discussed earlier, during the early phase of social institutional transition, CSR relevant issues are usually in vacuum or embryonic state of discussion. Business organizations still think less about their environmental responsibility, employee welfare, and even resisting obeying labor law. This is not only a firm-side matter, but the business institution environment also remained with lots of uncertainties. For example, many Chinese executives expressed concerns about restructuring their working place into more environmentally friendly and safe place, because there is lack of assistance from the government side to meet the margin of the product price. A majority of executives still think the lowest price is the most competitive strategy (Yin and Zhang, 2012).

However, interestingly, incumbent firms in the most of the emerging countries already have performed social responsible actions in *implicit* ways. (Matten and Moon, 2008) Moreover, CSR literature in emerging countries broadly agreed on that CSR is not a totally new concept; rather it has been operated with different names in many countries (Blowfield and Frynas, 2005, Preuss and Barkemeyer, 2011) and for smaller firms' case, many SMEs in Europe also showed high level of civic engagement before the dialogue of CSR emerged (Koos, 2012). For example, in China, a majority of State Owned Enterprises (SOEs) historically embedded employee's welfare and economic securities via a unique commune system which is called

'*Danwei*.' Within a *Danwei*, employee's family made a life together and their children went to school, and visited hospitals, all of them were run by SOEs. When the employee's children graduate, SOEs even looked for jobs for them. Therefore, there is a more or less moderate norm and strong cognitive expectations among society that the incumbent firms should care about social affairs, even after the deregulation. Nonetheless, in the early phase incumbent firms react passively to normative and cognitive calls owing to the deregulation, in another word, abolishment of their historic responsibilities. Therefore, they only accommodate their social actions upon the government's request. For example, when a country experiences a natural disaster, incumbent firms are required, through political pressures and normative and cognitive pressures, make philanthropic contributions such as donations.

Propositions 1: In the early phase of institutional transitions, incumbent firms, compared to other types of firms, are likely to be inactive in legal and economic pressures, and perform occasional philanthropic actions by accommodating to government's requests such as natural disaster

Entrepreneurial Start-Ups

When there is an absence of legal provision for social activities, start-ups are largely free from institutional pressures on CSR. They do not have a history in civic engagement or business operation itself, so regulative pressures for them to engage in corporate social responsibility are to be weak. They cannot compete with large and established firms in terms of size and legitimacy in building socially responsible position. Therefore, unless having a determined willingness of social engagement, only mimicry performance would appear.

On the other hand, from the business strategy perspective, as a new starter, their main aim is to engage with as many stakeholders as possible (Retolaza et al., 2009). Therefore, owing to the less established relationships with stakeholders and reputation in the market compared to incumbent firms, start-up firms tend to compete with competitive resources and capabilities (Peng, 2001, Mathews 2002). Between T1 to T3, start-ups will receive different pressures of CSR institutional pressures depending on their business orientation, that is either export-oriented or not. It is important to note the orientation of these firms to understand the intensity that entrepreneurial may receive from new normative and cognitive pressures in the early phase of transition. Entrepreneurial start-ups who are export-oriented will feel moderate pressures from socially responsible normative and cognitive institutions to compete in the global market. It is moderate because the pressure is weaker than the pressure for new firms in the developed countries, but stronger than those incumbent firms (Peng, 2003). Since their stakeholders are from oversea market, such as vendors, suppliers, and buyers, expectations of their business standards could be as high as the international standards such as ISO 26000. As shown in the Figure 1, we can expect that it will be costly to build infrastructure to meet the international standards during T1 to T3, but in the formation of business of start-ups, 'organizational habits' are developed, so it is very important to establish a 'well-planned strategy' to use it in this phase of the creation of the firm (Retolaza et al., 2009). If this doesn't happen, management of strategic adjustment will be very difficult later on (Retolaza et al., 2009). However, as more players join the market and CSR institution environment moves to more rule-based society, early-invested-firms will appreciate the benefit of it. For example, some small and medium companies established in economically advanced zones in China started realizing the value of achieving higher social and environmental standards to compete in the global market (Yin and Zhang, 2012). Therefore, they recognize that meeting socially and environmentally responsible norms can create competitive advantage with high quality products and services.

Proposition 2a. Start-up firms (export-oriented) are likely to be active to meet socially responsible standards (legal and ethical) and regard it as competitive advantage.

Proposition 2b. Start-up firms (local-oriented) are likely to be inactive to socially responsible standards (legal and ethical) and only response as a mimicry forms.

Foreign Firms

During early phase of institutional transition in emerging countries, government offers various advantages to foreign firms to induce their FDI, for example, by operating economic zones. Accordingly, it is not surprising to know that one of the main reasons that Multinational Firms' enter the emerging market is to seek for lower transaction cost and advantageous business environment. In exchange of it, local government expects for foreign firms to spill over advanced technologies, introduce better business practice and ultimately boost the local economy. For MNCs, pressure from international institutions, such as NGOs, also worked them to incorporate socially responsible actions when they operate oversea. Therefore, compared to incumbent firms who receive relatively weak regulative pressures, foreign firms receive more attention from the government with moderate rules and cognitive expectation (Peng, 2003). For example, when China opened the market, many foreign buyers rushed to the one of the largest market in the world. Chinese people thought that foreign firms brought the concept of CSR and citizenship with them in the late 1990s (Zu and Song, 2009). They raised a standard of making quality products, offered social programs to seduce qualified local employees: e.g., CISCO's running CICSO Networking Academy in China (Porter and Kramer, 2002).

One of the reasons of MNCs' active engagement with CSR activities is to overcome foreign firm's liability of foreignness (LOF). To earn legitimacy and overcome LOF, foreign firms may invest on social programs in the early phase, which result them to participate actively in social programs. However, Campbell (2012) empirically examined and found that MNCs CSR engagement to overcome LOF *reduces* in the host country when home country is more distant from the host country in geographically, culturally, and economically. This suggests that, despite increased strategic *motivation* for CSR, the countervailing effects of distance on the *willingness* and *ability* to engage in host-country CSR result in lower CSR investment. Therefore, in the early phase of institutional transition in which the institutional uncertainty pervasive, despite of comparably high pressure of CSR, foreign firms who are in great distance will less engage with actual programs. Nonetheless, they cannot afford to take inactive engagement in CSR due to comparably high institutional pressures from host country; instead they will accommodate CSR programs.

Proposition 3: In the early phase of institutional transition, foreign firms who are in more distance between host and home country are likely to perform accommodating CSR actions to in economic, legal, ethical and philanthropic ways than foreign firms with the less distance.

Late Phase of Institutional Transition

In Figure 1 the time period after T3 in institutional transition is more formalized of rules hence the late phase of transition is more rule-based. The firm faces now relatively strong institutional pressure for CSR in the late phase and found very high expectations from potential customers for them to be more philanthropic than in the early phase. In response to these institutional pressures for CSR in the late phase, firms shift their CSR strategy to be more competitive in market by engaging in different social programs and explicitly express their CSR engagement like releasing CSR annual reports. Moreover, firms who are used to limit their engagement on employment related CSR are now move towards more environmental (ethical) issues or also as more voluntarily initiatives towards natural disaster (philanthropic).

While Figure 1 explains that from T3 and onwards the cost decline and benefit increase, but before approaching to T5, the benefits reliant on rule-based and impersonal exchange do not essentially be more important than the costs, while the benefits of reliant on CSR may persistent to be positive (although diminishing). Simultaneously, preliminary with the early phase, the new norms focusing on capability improvement are first established by 'fringe' (Peng, 2003) players, such as start-ups and foreign entrants, who have tiny impact on incumbent, the earlier fundamental and focal players prior to the transitions, in beginning. Though the transitions took place, start-ups and foreign entrants progressively turn out to be more fundamental and focal players, thus emphasizing their norms in the organizational field and making

market-based competition the new institutionalized practices (Leblebici et al., 1991). In coming section we elaborate these dynamic changes.

Incumbent Firms

In parallel with the global initiatives on sustainable developments and corporate social responsibilities such as ISO 26000, UN Global Compact, and the rise of participation in GRI, emerging economies who are in the late phase of institutional transitions cannot afford to ignore the necessity to build legislations on corporate social responsibilities. Not only from the central government, but also dialogues in academic filed also flourish in the late phase. For example, we can witness from China's case that the volume of research increase dramatically. Zheng et al. (2014) typed the keyword "gongsi shehui zeren" (Chinese word for CSR) in a search engine, they found only 1 article published in 1994, 2 in 1998, 1 in 1999, and 1 in 2001. However, the literature has expanded markedly since 2002: from 8 articles in 2002 to 172 in 2006. Moreover, pressures on China's incumbent firms, namely State-owned Enterprises (SOE) became more rule-based. In 2008, the Chinese central government released Guidelines to the State-owned Enterprises who are under direct supervision. The Guidelines include fundamental principles, major content and implementation measures of CSR for SOEs. Overall the Guidelines are consistent with international definitions except for the absence of human rights protection, as affirmed by Lin (2010). The Guidelines explicitly state that "Fulfilling CSR is not only their (namely, SOE's) mission and responsibility, but also an ardent expectation and requirement from the public" (Article 2).

In consequence of fortified regulative pressures, normative and cognitive pressures also increase. Therefore, incumbent firms in the late phase of institutional transition are likely to receive strong pressures from all of regulative, normative and cognitive perspectives. Nonetheless, it is a difficult assignment for SOEs to articulate socially responsible programs appropriately to these pressures due to the lack of experiences. Despite the wide consensus on the necessity of commencing social responsibility, some of executive from incumbent firms still found CSR as an 'alien' concept which remains only limited concept (Yin and Zhang, 2012). Furthermore, incumbent firms have established network with government, so if the new norms and responsibilities are in conflict with their interests, such as firm restructuring of governance, improvement of facilities, they tend to utilize their established network to muddle through the situation. Even in the developed countries, finding successful cases of SOE's social responsibility performance are not easy (Roper and Schoenberger, 2011). Roper and Schoenberger (2011) questioned the legitimacy of SOEs in performing socially responsible actions by taking an example of a New Zealand corporation who failed to meet the expectations of their stakeholders and corporate missions on delivering social responsibilities of its own. Therefore, it is important for them to understand the concept and long-term benefit. Otherwise, it will be a big challenge for them to accept and follow the high standard of regulation and social norms and cognitive responsibilities. Therefore, the incumbent firms' CSR strategies will be divided according to their level of understanding on the concept of CSR.

Proposition 4: In the late phase of institutional transitions, incumbent firms who have better understanding on CSR concepts are more actively to engage in socially responsible actions than firms who have lower understanding. The latter despite of strong pressures of regulative, normative and cognitive pressures is likely to be accommodating to social responsibilities.

Entrepreneurial Start-Ups

When there are more formalized rules and legal provision for social activities, start-ups faces institutional pressures to be more socially responsible and they have to be focused on strategic choices of CSR. In the late phase, more players join the market and CSR institution environment moves to more rule-based society. At time T3 as shown in Figure1, the cost of CSR is minimum decline up to certain point P5 while the benefits of CSR are maximum increased up to certain point P4, at this time of span firms focused much more formalized of rules for CSR strategies. After time T3, start-ups will receive more institutional

pressures for CSR depending on their business orientation, that is either export-oriented or not. It is important to note the orientation of these firms to understand the intensity that entrepreneurial may receive from new normative and cognitive pressures in the late phase of transition. Entrepreneurial start-ups who are export-oriented will feel strong pressures for CSR and show to the global market that they are socially responsible. It is strong because there is more competition and firms will move towards more philanthropic in nature. Due to participation in global world business firms have to meet more standards as expectations from their stakeholders will be high as compared to the firms which are not export oriented or does not participate in global competition. Therefore, they recognize that meeting socially and environmentally responsible norms can create competitive advantage with high quality products and services. As shown in the Figure 1, we can expect that after time T3 the cost for CSR start increasing and the firms in late phase found strong pressure for CSR as the expectations will be high for them to be more philanthropic than in early phase to show to be a good corporate citizen.

Proposition 5a: Start-up firms (export-oriented) are likely to be proactive to meet socially responsible standards (legal and ethical) and regard it as competitive advantage

Proposition 5b: Start-up firms (local-oriented) are likely to be active to meet socially responsible standards (legal and ethical) and only responsive

Previously established entrepreneurial start-up firms in the early phase CSR strategies will be different from entrepreneurial start-up firms established in the late phase. Owing to fewer establishments of relationships with government and reputation in the market compared to incumbent firms, start-up firms tend to compete with competitive resources and capabilities (Peng 2003, Mathews 2002). Previously established entrepreneurial start-up firms in this late phase are active in performing CSR actions while they focused on their competitive resources and capabilities. If these firms CSR strategies are their competitive capability than these firm will pay much focused on their CSR strategies and feel strong institutional pressure for CSR. In contrast the entrepreneurial start-up firms established in late phase will focused on CSR strategies to be more competitive in market though feel strong institutional pressure for CSR.

Proposition 5c: Previously established entrepreneurial start-up firms in this late phase are active in performing CSR actions to be economic, legal, ethical and philanthropic ways and compete mainly on the base of existing competitive resources in contrast to entrepreneurial start-ups established in late phase are likely to be more proactive in performing CSR actions to be economic, legal, ethical and philanthropic ways and regard it as competitive advantage

Foreign Firms

As the market moves to more rule-based and explicit CSR environment, foreign firms are likely to lead socially responsible programs in the late phase. Foreign firms gain more confidence in structured market environment as well as they build more experiences in understanding the local culture and history. Business structurally, experienced foreign firms who entered market in a form of joint ventures in the early phase now become more independent and transform themselves into a wholly-owned (Peng, 2003). As the governmental attention increases on CSR, foreign firms are also proactively response to such pressures. For example, Chinese Academy of Social Science (CASS) started releasing the list of top CSR performance companies of China since 2009. The report measured firm's economic, environmental, and social performance and referred to ISO 26000 and other international indices to make the list.

Every year Chinese SOEs were ranked in the top places, whereas foreign firms ranked far lower places. However, the Korean conglomerate Samsung Electronics achieved the 21 place in the top best CSR 300 firms, which consist of SOEs, private firms, and foreign firms, of 2013 report. It was the first place in top 100 best CSR foreign firms. Samsung Electronics only ranked 67 in 2009, 131 in 2010, 99 in 2011 and 56 in 2012. Later, the company argued that the reason that they appeared to fall behind was not that they did

not participate in socially responsible programs, but they did not reveal or express their CSR activities explicitly. Campbell's (2012) argument that culture, geographic and economic distance discourage foreign firms from investment on CSR still apply to their strategic decision, but will only be limited to those who newly entered in the late phase. Foreign firms who establish their experiences in the early phase are now fully exposed to the local stakeholders, so regulative, normative and cognitive pressures on them are to be strong.

Proposition 6: In the late phase of institutional transition, established foreign firms are likely to perform proactive CSR actions in economic, legal, ethical and philanthropic ways.

Other Variables

To see the impact of Industry and sector on CSR activities we divide firms into three broad categories which are namely public visible firms, non-environmental friendly firms and other firms. Koos (2012) suggested that greater visibility have positively impact on charitable contributions by corporations. He indicates visibility by the number of employees of that corporation. The other researchers have used different indicators for these categories; we used retail trade firms and personal service industry to be included in public visible firm's category. Koos (2012) argued that firms with higher age were more likely to be socially responsible. Hence following proposition is drawn:

Proposition 7a: Public visible firms are more likely to face moderate institutional pressure for CSR in early phase while these firms face strong institutional pressure for CSR in late phase, hence Public visible firms are likely to be more active in performing CSR actions for economic, legal and ethical ways in early phase while in late phase these firms are likely to be more proactive in performing CSR actions for economic, legal, ethical and philanthropic ways

Brammer and Millington (2003) while studying top 50 UK firms suggested that stakeholder pressure is for manufacturing firms to be more socially responsible. Berman et al. (1999) argued that firms who are less environmental friendly spend more in social causes to mitigate the environmental impact. Jackson and Apostolakou (2010) elaborated CSR scores has been influenced highly positive by environmental impact industries. Campbell (2007) argued the pressure on firms to be socially responsible comes from external stakeholders for example environment protective NGOs and government agencies. Jackson and Apostolakou (2010) suggested that pressure on firms also came from within industry as some industry has regulations and different CSR standards hence there is different risk related to certain sector.

Different researchers have categorized industries with respect to environmental impact (Templet and Farber 1994, Halme and Huse 1996). Different researchers have used different indicators for Non-environmental friendly firms; we used steel works, metal mining, and industrial in organic chemical, lumber, wood products, coal, gas, petroleum and other manufacturing firms to be included in Non-environmental friendly firm's category. Koos (2012) found that the risk related to environment associated with manufacturing did not provide sufficient empirical support to engage in increased community welfare. The non-environmental friendly firms are more interested in environmental CSR rather than to be philanthropic as these firms has first liability to take care of environment and make good of that they harm the society by polluting environment. Hence non-environmental friendly firms generally focused on environmental aspect of CSR. Hence following proposition is made:

Proposition 7b: Non-environmental friendly firms face moderate institutional pressure for CSR in early phase while these firms face strong institutional pressure for CSR in late phase hence non-environmental friendly firms are likely to be more active in performing CSR actions for economic ways in early phase while in late phase these firms are likely to be more proactive in performing CSR actions for economic, legal, environmental and ethical ways.

Discussion

In contrast to many other CSR researches, this paper explored a multidimensional approach to CSR: conceptualizing external institutional pressures on CSR, predicting firm's internal strategic responses, and integrating them on the two time phases during institutional transitions. By doing so, this study expands understanding of strategic perspectives of CSR literature in academic. Furthermore, it is a very timely study for policy makers of emerging countries as well as practitioners of the different forms of business organizations.

First we reviewed CSR literature from strategic view points. Why should a firm need to be strategic when operating CSR? Without strategic approaches to CSR, firms are likely to fail to make them their competitive advantage (Porter and Kramer, 2006). Conceptually Carroll (1991) divided a firm's CSR into four types; economic, legal, ethical and philanthropic. Following his work, many scholars expanded strategic CSR by adding or revising the order of the pyramid model. Well articulated CSR activities only can raise firms' reputation, employee royalty, in other words, intangible competitiveness.

Second, we scrutinized characteristics of CSR according to its institutional embeddedness. As a business entity's strategy, one aspect of CSR is to be understood within a framework of economic, which is naturally embedded to social institution (Koos, 2012). Institutional theory is about how regulations, norms and practices are formed, diffused and adopted over time (Campbell, 2007). In CSR context, selective institutional pressures mediate corporation's socially responsible activities, such as government regulations, monitoring from media and NGO, etc.

Third, by incorporating CSR into Peng's two-phase model, we rationalized institutional pressures that each form of business will receive and made predictions on CSR strategies that they will likely to make on different time spans namely the early phase and the late phase. We focused on emerging countries because they are 'qualitatively different' transformation on institutions (Newman, 2000). CSR studies in emerging countries are also imbalanced compared to the Western context. Generally, in the early phase, cost of CSR program is in inversion proportion to firm's benefit owing to less regulated CSR provisions and indifference of ethical and philanthropic institution from the government. However, as the market moves to more structured and rule-based, CSR related institutions arise to give pressures on firms.

In the early phase, CSR institutions are still in embryonic. For incumbent firms, regulative pressure is weak. However, as we can witness from China, India and many other Eastern Europe, there has existed an implicit social engagement from incumbent firms. Therefore, while incumbent firms react inactively to regulative changes, they still accommodate their CSR actions to occasional requests due to inherit cognitive expectation. On the other hands, entrepreneurial start-ups, owing to the absence of previous engagement with stakeholders – because they are new entrants – will experience relatively weak pressures from institution. In this phase, their main aim is to make as many stakeholders as possible (Retolaza et al., 2009). Therefore, they will focus on competing with competitive resources and capabilities (Peng, 2001, Mathews 2002). We introduced one distant variable that is 'export-orientation' of start-ups. Despite of weak institutional pressures, export-oriented start-ups will likely receive relatively moderate pressures to compete with global stakeholders, therefore their CSR strategies are likely to be active. Finally, foreign firms receive a relatively different level of expectations from the host countries hence strong institutional pressures. Some emerging countries even regard that the concept of CSR is introduced by foreign firms when they first entered the market (Zu and Song, 2009). Therefore, it is likely that they will engage with social programs actively. However, foreign firms in a great distance of cultural, geographical, and economic between home and host countries result in lower CSR engagement (Campbell, 2012).

In the late phases, firms face more rule-based CSR institutions with high expectations from potential customers for them to be more philanthropic than in the early phase. With increasing pressures on emerging countries on socially responsible institutions such as high standard of working environment and sustainable

development, incumbent firms are likely to receive strong regulative pressures from central government. Nonetheless, due to their origins in emerging economies, they could resist against new legal and ethical norms such as structural reform, improvement of facilities and advancing employee welfare in a short period of time. Instead they could utilize the established network to muddle through the situation. Therefore, the level of understanding of CSR concepts as well as its potential of the competitive advantage works as an indicator to predict incumbent firms' strategic CSR choice. For entrepreneurial start-up, they continue to focus on developing their competitive resources in the late phase. CSR strategies will likely to increase proactively for export-oriented firms and active for local-oriented firms. One variation arises for newly established start-ups in the late phase. Different from established start-ups in the early phase, new start-ups in the late phases will proactively engage in CSR activities due to strong institutional pressures. Lastly, foreign firms gain more confidence in structured market environment as well as they build more experiences in understanding the local culture and history in the late phase. Therefore, they proactively conduct their CSR strategies according to their business mission as well as host government's requirement. We acknowledge several limitations of this study. First, we adopted a general understanding of Scott's (1995) institution categories of regulative, normative, and cognitive. However, implicit CSR context is largely based on history and culture (Matten and Moon, 2008). Therefore, implicit CSR practices may only be captured by each country's culture and history whereas it is very challenging since the boundary of emerging economies is very large from the Far East Asia to Africa.

Second, even though we introduced possible moderations such as 'the level of understanding of CSR concepts' for incumbent firms, 'export-orientation' for start-ups and 'distance' for foreign firms, there should be a lot more variations that we didn't deliver. Here we encounter an original question of generalization in research studies to deal with.

Lastly, empirically defining the various time points will be challenging. For example, how do we identify the border between the early phase and the late phase? When is the T3? As Peng (2003) acknowledged it would be safe that, at present, there is no emerging economies that has reached this point. As a result, longitudinal studies should patiently include several decades.

In future research, one possible direction is to find a subject of empirical studies which is in line with the logic of this paper, but address questions above together. For the time defining of transitions, external institutional appearance such as new regulations, standards might be of help to support points of transition.

Conclusion

CSR has been the topic of rational enquiry for many business scholars in recent decades. The prosperity of the research comes in part from the beginning of collaboration among different disciplines. The different aspects of scholastic enquiry into social responsibility and the various origins of the expression itself have shaped a variety of meaning. Furthermore, CSR is more and more comes under the fraction of the commercial enterprise. Businesses can make a considerable involvement by shaping their behavior in a way that they together evade harm and contribute towards the prosperity of society. Corporate sector involvement in policy dialogues has various advantages that awareness can be built by business through media outreach or consumer education. Stakeholders can also work together more effectively. CSR concept seems having a brilliant prospect because at its center, it elaborates and captures the most significant concerns that is the relationship of business and society.

Nonetheless, CSR remained a field in early development despite the vast literature on it. Understandably, it is criticized that the CSR literature is highly 'fragmented' (Aguinis and Glavas, 2012). One of the reasons includes pervasive use of different disciplinary and concepts. CSR need to be studied in a multilevel and multidisciplinary review to integrate and synthesize the vast and diverse extant literature. This paper explored a multidimensional approach to CSR: conceptualizing external institutional pressures on CSR, predicting firm's internal strategic responses, and integrating them on the two time phases during

institutional transitions. By doing so, this study expands understanding of strategic perspectives of CSR literature in academic. In the early phase of institutional change, most of the governments focus on making new legislations for only economic and legal aspects leaving CSR provisions upon firm's discretion. In the late phases, firms face more rule-based CSR institutions with high expectations from potential customers for them to be more philanthropic than in the early phase. Furthermore, it is a very timely study for policy makers of emerging countries as well as practitioners of the different forms of business organizations.

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