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# **Corporate Social Responsibility in Finnish companies' Chinese subsidiaries**

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**TIIVISTELMÄ:**

Yritysten sidosryhmät vaativat yhä enemmän vastuullisuutta ja kestäväen kehityksen mukaisia toimenpiteitä yrityksiltä. Kaikille yhteiset ilmastonmuutoksen tuomat haasteet ja erilaiset sosiaaliset asemat maailmassa puhuttavat. Yritysten tulee toimia vastuullisesti oikeudellisten vähimmäisvaatimusten lisäksi myös pitääkseen kilpailukykynsä, positiivisen työnantajakuvansa ja saadakseen uusia liiketoimintamahdollisuuksia. Tutkimus tarkastelee suomalaisten yritysten yhteiskuntavastuuta kiinalaisissa tytäryhtiöissä. Tutkimus on toteutettu suomalaisten yritysten näkökulmasta ja tutkimuksen tavoitteena on selvittää kuinka suomalaiset yritykset johtavat vastuullisuutta kiinalaisissa tytäryhtiöissään, mitkä asiat vaikuttavat vastuullisuus strategian valintaan ja mitä haasteita vastuullisuuden johtaminen kehittyvillä markkinoilla tuo. Teoriaosa koostuu yhteiskuntavastuun ja tytäryhtiöiden määrittelystä. Kaikissa käsitellyissä yhteiskuntavastuun määritelmässä on ainakin seuraavat kolme osaa: taloudellinen vastuu, sosiaalinen vastuu ja ympäristövastuu. Lisäksi teoriaosassa käsitellään globaalin ja lokalisoidun yhteiskuntavastuustrategioiden eroja. Teoriaosan lopussa yhteiskuntavastuun ja tytäryhtiöiden johtamisen määritelmät on yhdistetty ja runko yhteiskuntavastuun johtamisesta monikansallisen yrityksen tytäryhtiössä esitellään. Empiirinen tutkimus toteutettiin haastatteleamalla suomalaisten yritysten johtajia, joilla on kokemusta vastuullisuuden johtamisesta ja tietoa yrityksen kiinan toiminnoista. Lisäksi aineistona käytettiin yritysten vastuullisuusraportteja. Haastatteluissa tutkittiin muun muassa yritysten motivaatiota yhteiskuntavastuun toteuttamiseen, yrityksen vastuullisuuden tämän hetkistä tilaa ja strategiaa, Suomen ja Kiinan liiketoimintaympäristöjen eroja, kulttuurin vaikutusta vastuullisuuden johtamiseen ja johtajien ajatuksia yhteiskuntavastuun tulevaisuudesta. Tutkimuksen perusteella kaikki haastatellut yritykset käyttivät globaalia lähestymistapaa yhteiskuntavastuustrategiassaan Kiinassa. Strateginen päätöksenteko vastuullisuudesta tehdään keskitetysti Suomessa ja vain joitakin operatiivisia päätöksiä tehdään paikallisesti tytäryhtiöissä. Globaali yhteiskuntavastuustrategia tekee koko verkoston vastuullisuuden hallitsemisesta helpompaa ja vastuullisuusraportointi prosessista yksinkertaisemmän. Haasteet vastuullisuuden ja tytäryhtiön johtamisessa ovat pääasiassa kulttuuriin liittyviä, mutta kaikki haastatellut yritykset sanoivat että heillä ei ole merkittäviä strategisia haasteita ja operationaaliset haasteet ovat osa jatkuvaa oppimista. Tulevaisuudessa tarve kestäväälle kehitykselle ja yritysten vastuullisuudelle on todennäköisesti kasvava ja uudet haasteet voivat muokata vastuullisuuden kehityksen suunnan.

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**AVAINSANAT:** Corporate Social Responsibility (CSR), multinational corporation (MNC), foreign subsidiary, headquarter, China

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**Abbreviations**

CSR	Corporate Social Responsibility
GDP	Gross Domestic Product
HQ	Headquarter
MNE	Multinational Enterprise
MNC	Multinational Corporation
R&D	Research and Development
SDG	Sustainable Development Goals
UN	United Nations

# 1 Introduction

The topic of the thesis is Corporate Social Responsibility (CSR) in Finnish companies' Chinese subsidiaries. This introductory part looks firstly at the background and the research gap of the topic. Corporate Social Responsibility (CSR), multinational corporation (MNC) and foreign subsidiary are the key concepts of the study, and those are briefly explained. Then, the research question, objectives of the research, and the delimitations are delineated. Lastly, the structure of the thesis is presented.

## 1.1 Background of the topic

Companies' stakeholder groups are demanding sustainable actions and well-executed CSR actions from companies, and thus there is an increasing demand for sustainable procedures in the business. Society, government, employees, suppliers, shareholders, and consumers are important stakeholder groups. Global consumers are willing to pay extra for sustainable products, which makes the company's sustainability also a competitive advantage. Nielsen's Corporate Global sustainability report (2015) shows that 66 per cent of consumers are willing to pay extra, and from Millennials 73 per cent are ready to pay extra, for the sustainability of the product. Nielsen's Corporate Global sustainability report covered 30,000 consumers in 60 countries in 2015.

Sustainability and companies' CSR are a recent topic of discussion in media, in companies and inside governments. The conversation is about being sustainable and about all the perks and requirements of acting sustainably. When considering the common goals for sustainability, globally noted frame for the goals is the United Nation's (UN) Sustainable Development Goals (SDGs). UN's SDGs include 17 goals, which are addressed to the global challenges faced, including those related to poverty, inequality, climate change, environmental degradation, peace, and justice. The aim is to achieve these 17 goals by 2030 (United Nations, 2020). The SDGs will be more widely discussed in chapter 2.2.

Internationalisation through multinational corporations (MNCs) has been held accountable for increasing the knowledge of modern CSR in China. However, various scandals regarding human rights, labour and environment have occurred among both international and local companies in China. Human right abuses by the corporations in China are also existing because the Chinese regulatory framework lets them exist. The violations include coal mine accidents, melamine-contaminated milk products and Yahoo leaking its users' personal information to the Chinese government (Deva, 2010). More recently, Chinese and foreign companies operating in China have claimed to use forced labour of ethnic minorities (Business & Human Rights Research Center, 2020). Water pollution is the most significant environmental challenge in China. It is worsened by the global companies supply chains, for example, in the clothing and textile industry (Hu & Cheng, 2013).

Traditionally, Western countries have seen implementing CSR actions in China more critical and urgent task than Chinese themselves. The concept of CSR remains a distant subject for several different Chinese parties (Xu & Yang, 2010). The concept of Corporate Social Responsibility was brought to China by the Western supply chains. CSR has evolved because of the international pressure from different stakeholder groups, and the evolution has followed the model which has been proposed in the Western business world. Globally several guidelines and standards, such as SA 8000 and ISO standards, have been created to control companies CSR actions. Recently, local Chinese standards, such as CS9000T, have been established. China is becoming a significant player in CSR, but their practices and concepts are still lacking behind Western development (Wang & Juslin, 2009).

China is considered to be an emerging economy. On the other hand, China is the world's second-largest economy by Gross Domestic Product (GDP) and the largest economy in terms of purchasing price parity. China has made enormous social and economic progress, but still, its income per capita refers to that that China is still a developing country (World Bank, 2019). The difference in terms of size of Finnish and Chinese economy is



enormous, but China is a significant market for Finnish outward foreign investments. Approximately 350 Finnish companies operate in China by locating their office, representative, subsidiary, or joint venture in China. These companies employ over 60 000 people, either directly or indirectly, in China. Most of these companies are in Beijing, Shanghai, or Guangdong (Finncham, 2017).

There are studies concentrating on the multinational corporations' (MNCs) subsidiaries' CSR procedures, also with the focus on the emerging economies and in the Chinese market (Qi, 2006; Lam, 2007; Yang & Rivers, 2009; Hah & Freeman, 2014). However, localisation and standardisation of CSR strategies in developing countries have not received a lot of attention in the international management literature (Jamali, 2010). There are not many studies concerning especially Finnish companies' CSR operations in China. Thus, the research paper aims to combine the research done in Finnish foreign direct investment (FDI) to China and the research done concerning the CSR in China and understand the CSR strategies of Finnish companies in their Chinese subsidiaries.

## **1.2 Research question and objectives**

This thesis concentrates on the relationships between Finnish companies and their subsidiaries in China and examines how the Finnish companies manage CSR in the subsidiaries. The research question of the thesis is:

*How Finnish companies manage Corporate Social Responsibility in their Chinese subsidiaries and overcome the possible challenges?*

Communication between headquarter and the foreign subsidiary is reviewed and reflected the CSR operations. Additionally, the Finnish companies CSR strategies are examined and determined if they are following the standardised global or localised local approach, and how the approach is managed in the subsidiary. Noteworthy is also the possible challenges that may arise in managing the CSR or the subsidiary from the headquarter point of view.

The objectives of the study can be divided into the objectives of the theoretical part and the empirical part. The theoretical part consists of the concept of Corporate Social Responsibility in literature and then an analysis of the parent company and foreign subsidiary relationships. The first part of the literature review aims to explain the most relevant theories of CSR in literature, and additionally compares CSR views on Western literature and in Chinese literature. The objective of the second part of the literature review is to: (1) identify different relations between a parent company and foreign subsidiary, (2) how the culture affects the parent company-subsidary relationships, and (3) how companies manage their subsidiaries in emerging markets. The last part of the theoretical review corresponds to the previously discussed matter and aims to combine the subjects by looking at the global and local CSR in Chinese subsidiaries.

The main aim of the empirical part of the study is to identify how Finnish companies succeed in CSR management in their Chinese subsidiaries, and whether Finnish companies are adopting global or local CSR strategies in their subsidiaries. The study will examine whether sustainability is seen as an extra cost or as a strategy and why the companies have chosen the CSR strategy they have. The aim is to review the challenges and opportunities in the CSR management of the Chinese subsidiaries. Additionally, the study examines the established relationships between Finnish companies and their Chinese subsidiaries.

### **1.3 Key concepts**

#### **Corporate Social Responsibility**

Corporate Social Responsibility (CSR) is the concept whereby companies integrate social and environmental concerns in their business operations and their interaction with their stakeholders voluntarily (Commission of the European Communities, 2001). Conceptually CSR has been divided into economic, social, environmental, and philanthropic responsibilities. Economic responsibility is the base for the companies' CSR (Carroll, 1991). Often companies use the triple bottom line of sustainability (Elkington, 1997) to identify their CSR actions. The triple bottom line includes three segments of sustainability: profit

(economic responsibility), planet (environmental responsibility) and people (social responsibility). Many existing definitions of CSR include these three segments, and the economic responsibility remains the base for CSR.

### **Multinational corporation**

A multinational corporation (MNC), multinational enterprise (MNE) and transnational corporation are widely used in the academic literature to describe the large corporations that have an international strategy, vision, and mission (Aggarwal, Berrill, Hutson, & Kearney, 2011). The MNC's operations are involving several different countries, and they are producing and selling goods in several different countries. But MNC is managed from the country where it was founded. MNCs often have subsidiaries and other legal entities in host countries. A company with a quarter or more of its sales in other countries than in its home country is an MNC (Cambridge Dictionary, 2020a).

### **Foreign subsidiary**

According to Cambridge Dictionary (2020b) 'subsidiary' is shortly defined as a company that is owned by a larger company. There is an enormous variety of different subsidiaries, depending on the form of ownership. The legal relationship between the subsidiary and the parent company can vary from the legal holding company to a wholly owned subsidiary (Birkinshaw & Hood, 1998). In this thesis, concentration is on the Finnish companies' foreign subsidiaries, not in the subsidiaries that are located in the home economy.

## **1.4 Delimitations**

The delimitations of the study set the boundaries for the research, which are the choices of objectives, the research questions, variables of interest and the literature set by the researcher (Simon & Goes, 2013). The concept of CSR remains elusive and contested; thus, a worldwide unbiased definition cannot be introduced (Matten & Moon, 2008). In the theoretical part, this thesis will concentrate on the Western perspective of CSR because Western research offers the most researched and reviewed frameworks (Sarkar & Searcy, 2016; Wang & Juslin, 2009). The introduced CSR frameworks and definitions are

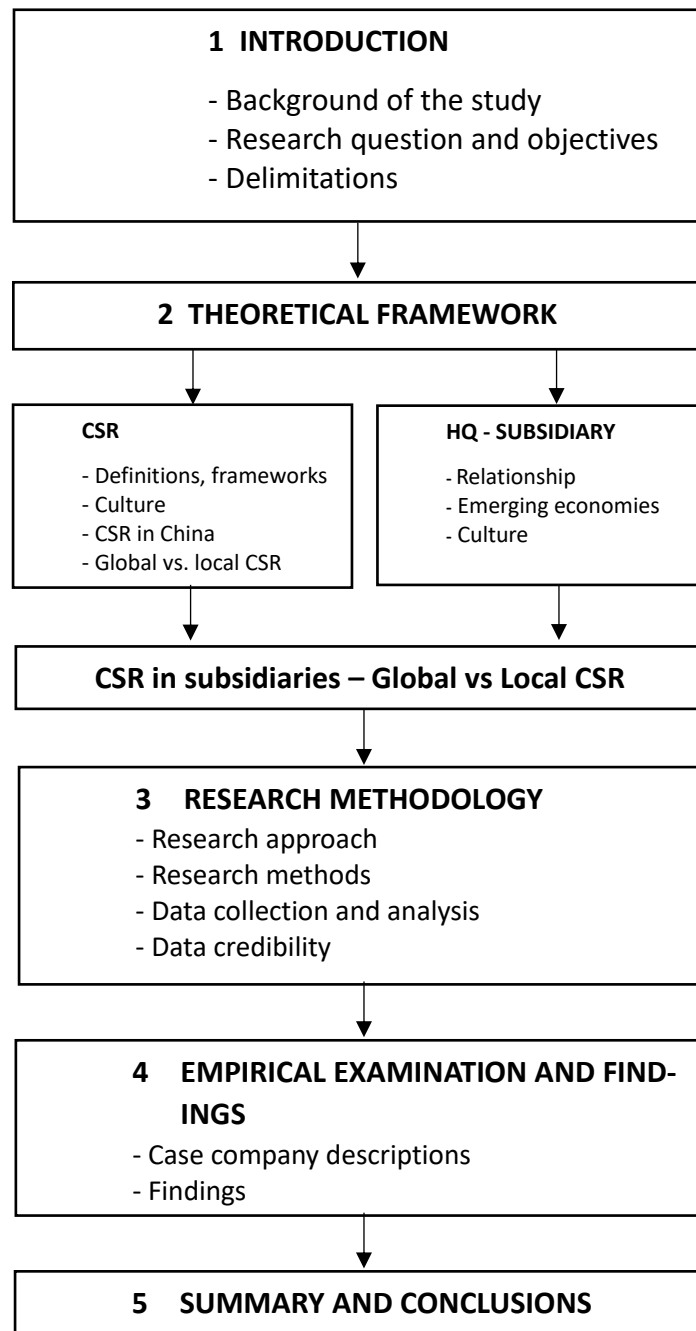
chosen based on the current literature. The focus is only on the parent companies and their subsidiaries, and other foreign direct investment options are not considered in this thesis.

The main delimitation of the empirical part is that the research will focus only on Finnish companies and their Chinese subsidiaries. The empirical part of the study is based on the interviews conducted in the chosen case companies. Thus, the selected industries and companies limit the scope of the study. Additionally, only Finnish companies' headquarters' managers will be interviewed. The final delimitations concern the qualitative nature of the research, and the data collection method, which is semi-structured interviews.

### **1.5 Structure of the thesis**

This thesis will follow a deductive approach and structure. The deductive approach means that research will be based on testing a theoretical strategy. Firstly, scientific research is introduced, followed by the theoretical framework and then the process is tested (Saunders, Lewis & Thomhill, 2016: 51). The used framework is presented at the end of the theoretical framework review chapter. Then the framework is compared to the results and analysis of the interview data at the end of the fourth chapter "Empirical examination and the findings".

The structure of the study is presented in Figure 1. In the introduction chapter, the main purposes and research question of the thesis are presented. Then, the theoretical frameworks of CSR and the HQ-subsidiary relationships are presented. The third chapter of the study includes a description of the used research methodology. Introduction of the case companies, empirical examination and the findings are presented in the fourth chapter. The last chapter summarises previously discussed topics and concludes the results of the empirical examination and links findings to the theoretical frameworks. Additionally, the final chapter explains the limitations of the study and gives proposals for future research and managerial applications.



**Figure 1.** Structure of the thesis

## 2 Theoretical framework

This chapter will introduce the fundamental concepts of the thesis, and the major theoretical frameworks are discussed. Firstly, significant corporate social responsibility (CSR) frameworks are presented. The most recognised frameworks in this field are Carroll's (1991) pyramid of CSR and Elkington's (1997) triple bottom line. Secondly, the development and future of CSR are reviewed. Then the Western and Chinese CSR concepts are compared, and the concept of global and local CSR is reviewed. Then, the concept of parent companies' relationship with their foreign subsidiaries is defined. The cultural characteristics and differences between Chinese and Finnish culture are discussed. Lastly, the frameworks are drawn together to look at the companies CSR procedures in their foreign subsidiaries from global and local CSR perspectives.

### 2.1 Definitions and dimension of CSR

One of the earliest definitions for corporate social responsibility (CSR) was introduced by Milton Friedman (1970). In the 1970s Friedman stated that firms' only important CSR activity should be gaining profit, which meant that the only dimension of CSR was the economic dimension. Most of the CSR definitions underline the importance of economic dimension; for example, Carroll (1991) states that the base for the company's CSR is the economic responsibilities. All definitions addressed here include economic responsibilities.

Dahlsrud's literature review article (2008) values more frequently used CSR definitions more significant than rarely used definitions. Dahlsrud's study concentrates on 37 different definitions of CSR and finds that the European Commission's definition is the most frequently used and cited definition of CSR. The European Commission defines CSR:

*A concept whereby companies integrate social and environmental concerns in their business operations and their interaction with their stakeholders on a voluntary basis (Commission of the European Communities, 2001).*

Dahlsrud's (2008) and Buhanita's (2015) articles both note that frequently cited definition for CSR is developed by Business for Social Responsibility (2000). This definition includes voluntary, stakeholder, social, environmental, and economic responsibilities, although definition also mentions ethical values and legal minimums that must be fulfilled. Another frequently cited CSR definition is by the World Business Council for Sustainable Development (1999), according to both Buhanita (2015) and Dahlsrud (2008). This definition includes three dimensions of CSR: stakeholder, social and economic. The definition emphasises the importance of societal responsibilities, such as employees and their families.

Voluntariness, stakeholder, social, environmental, and economical are the five dimensions which are most frequently used to describe the CSR, according to Dahlsrud (2008). The focus of the CSR definition is highly dependent on the context and author of the study. Most studies concentrate on describing the phenomenon of CSR, but definitions do not include guidance on how to manage CSR or give managerial implications (Dahlsrud, 2008).

Sarkar and Searchy (2016) define six core dimensions of CSR from 110 sources published between 1953 and 2014. These six core dimensions are economic, ethical, social, stakeholders, sustainability and discretionary. The ethical approach is added to Dahlsrud's (2008) dimensions. Ethical dimension includes following moral and ethical rules, being fair and open and valuing transparency within an organisation. Within these six core dimensions, Sarkar and Searchy (2016) propose the following definition for CSR:

*CSR implies that firms must foremost assume their core economic responsibility and voluntarily go beyond legal minimums so that they are ethical in all activities and that they take into account the impact of their actions on stakeholders in society, while simultaneously contributing to global sustainability.*

Table 1 concludes the different definitions and dimensions of Corporate Social Responsibility. All the discussed CSR definitions have at least three dimensions of CSR, and all definitions include the economic dimension. The economic dimension is defined to be the base for CSR already in the 1970s by Carroll (1979). The legal dimension is acknowledged only in Carroll's studies (1979; 1991), where Carroll defines a legal dimension as the second most crucial dimension of CSR. Newer definitions of CSR do not count legal dimension to be part of CSR, even if definitions are often expecting that laws are obeyed. Elkington's (1997) triple bottom line -model is a base for numerous CSR definitions, and for the past 20 years economic, social, and environmental dimensions have been the standard dimensions of all definitions. Lately, voluntariness and stakeholders have arisen to be the main dimensions of CSR.

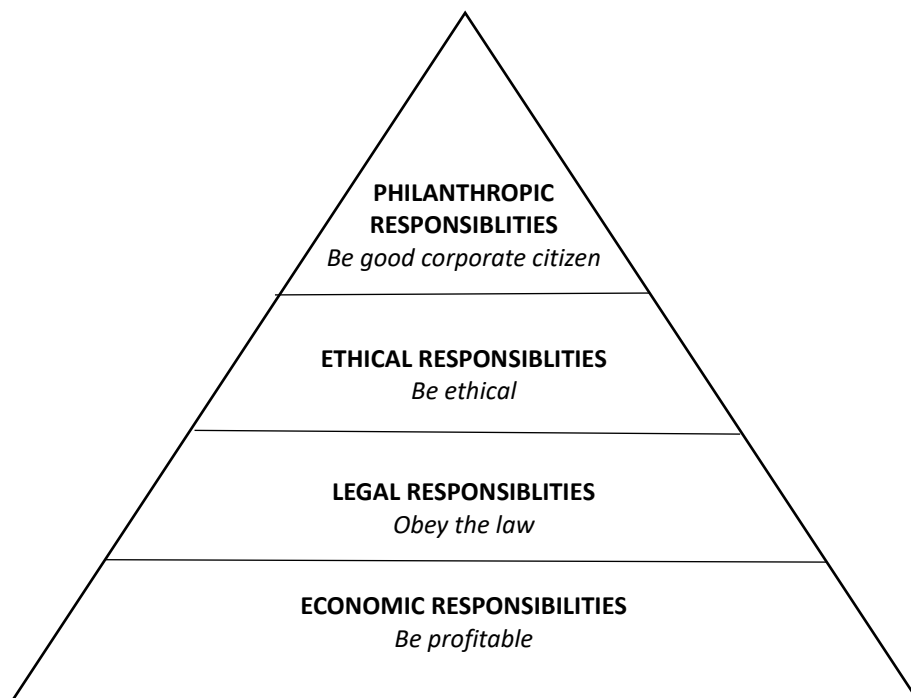


**Table 1.** Definitions and dimensions of CSR (Carroll, 1979; Carroll, 1991; Elkington, 1997; World Business Council for Sustainable Development, 1999; Business for Social Responsibility, 2000; Commission of the European Communities, 2001; Dahlsrud, 2008; Buhanita, 2015; Sarkar & Searchy, 2016).

Source	Definition	Dimensions of CSR
Carroll, 1979	"The social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organisations at a given point in time."	Economic, legal, ethical, discretionary
Carroll, 1991	Pyramid of CSR	Economic, legal, ethical, philanthropic
Elkington, 1997	Triple bottom line	Economic, social, environmental
World Business Council for Sustainable Development, 1999	"The commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life."	Stakeholder, social, economic
Business for Social Responsibility, 2000	"Business decision making linked to ethical values, compliance with legal requirements and respect for people, communities and the environment."	Voluntariness, stakeholder, social, environmental, economic
European Commission, 2001	"A concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis."	Economic, social, environmental, voluntariness, stakeholder
Sarkar & Searchy, 2016	"CSR implies that firms must foremost assume their core economic responsibility and voluntarily go beyond legal minimums so that they are ethical in all of their activities and that they take into account the impact of their actions on stakeholders in society, while simultaneously contributing to global sustainability."	Economic, ethical, social, stakeholders, sustainability, discretionary

### 2.1.1 The Pyramid of CSR

Carroll's study in 1979 defines four dimensions of Corporate Social Responsibility, which are economic, legal, ethical, and discretionary responsibilities (Carroll, 1979). Later, Carroll (1991) comprised these four dimensions into a pyramid shape by introducing the pyramid of Corporate Social Responsibility (see Figure 2). The economic responsibilities are the foundation of the pyramid, and Carroll underlines that economic responsibility is the most important one because companies' purpose is to be profitable business units. As a second responsibility, companies should obey the law. The third responsibility is to be ethical. The company should do the ethically right, be fair and avoid harming the stakeholders. The fourth responsibility is philanthropic responsibility, which essentially means to be a good corporate citizen by improving the quality of life in the community (Carroll, 1991).



**Figure 2.** The Pyramid of Corporate Social Responsibility (Carroll, 1991).

### 2.1.2 Triple bottom line

Triple bottom line is a sustainability-related framework, which was first introduced by Elkington in 1994 and later discussed in Elkington's book "Cannibals with Forks: The Triple Bottom Line of 21st Century Business" (Elkington, 1997). Triple bottom line includes three dimensions: economic, social, and environmental. Elkington uses terms profit, people, and planet to describe these three dimensions (Alhaddi, 2015). According to Elkington, sustainability is the harmony between economic sustainability, social sustainability, and environmental sustainability. Figure 3 demonstrates the triple bottom line framework and the harmony between the three dimensions (Dalibozhko & Krakovetskaya, 2018). Elkington (1997) claims that everyone will profit if companies act sustainably, including stakeholders, shareholders, society, environment, and the business itself (Jeurissen, 2000).



**Figure 3.** Triple bottom line framework (Elkington, 1997). Applied: (Dalibozhko & Krakovetskaya, 2018)

Triple bottom line's economical line, profit, refers to the significance of the organisation's business to the economic system. A profitable organisation should have an impact on

the growth of the economy and in this way, support future generations. The social line, people, means that an organisation should take care of its employees, human resources, and act in favour of the community. An organisation can, for example, provide value for society by offering fair wages and provide health care for employees. The environmental line, planet, refers to that organisations should not risk the future generations' environmental resources. Maintaining environmental responsibility includes the efficient use of energy, reducing emissions and minimising ecological footprint. Alhaddi (2015) concludes that the triple bottom line and sustainability are related topics. When researchers use term sustainability, they should include social, environmental, and economic pillars to the definition or state in which line their focus is on (Alhaddi, 2015).

## **2.2 Sustainable development goals and CSR**

CSR is mainly seen as a concept which is based on individuals' values, but when the values keep on changing, we can only guess what the next topic and path in the CSR is. Designing a sustainable corporate social responsibility (CSR) strategy utilising the United Nations sustainable development goals (SDGs) framework has become a trendy way of outlining the company's current CSR values and communicating about company's aims. In 2015, the United Nation's (UN) 195 member countries agreed on the Sustainable Development Goals (SDGs). The goals can be seen in Figure 4 (United Nations News, 2016). According to PwC's report, 92 per cent of the international business respondents were aware of the SDGs, and 71 per cent were already planning actions to respond to the SDGs. MNCs are widely aware of SDGs, while only 33 per cent of ordinary citizens were aware of SDGs (PwC, 2015).



**Figure 4.** United Nation’s Sustainable development goals (photo: United Nations News, 2016).

The 17 goals set by the UN are in Figure 4. These seventeen goals are set for 2030. Countries in the UN have agreed on these goals, although companies have a significant effect on these goals. Companies can have a positive impact on these topics by concentrating on these in their CRS strategy. There are goals for each step of the pyramid of CSR (Carroll, 1991). For example, goals “Create Decent Work and Economic Growth” and “Increase Industry, Innovation, and Infrastructure” are directly affiliated with the companies’ economic dimension of CSR. Several goals can be linked to the social responsibilities of the companies, such as “Establish Good Health and Well-Being”, “Provide Quality Education”, and “Enforce Gender Equality”. Environmental responsibilities can be seen, for example, in the following goals: “row Affordable and Clean Energy”, “Organize Climate Action” and “Develop Life Below Water”. “Eliminate Poverty” and “Erase Hunger” are ambitious goals, that are affiliated in all actions of companies, but mainly they can do philanthropic activities to fulfil these goals.

UN’s SDGs have involved the private sector for the first time to design the global sustainable development strategy. MNCs have an excellent opportunity to engage CSR actions by utilising the SDGs as a guideline (Schonherr, Findler, & Martinuzzi, 2017).

### 2.3 The effects of culture on CSR practices

National culture can be identified with Hofstede's framework. Geert Hofstede is a Dutch social psychologist known for his work in comparative studies of cultures. Hofstede's framework is widely used to describe and identify the national culture's characteristics. The framework is especially useful because it provides essential information about differences between countries and how to manage such differences. The framework is used in this thesis to ease the comparison with other studies concentrating on culture's effect on CSR, as Hofstede's framework is frequently used and cited (Beugelsdijk, Kostova & Roth, 2017).

Hofstede's (2011) framework is used to identify national culture's characteristics with six cultural dimensions. The six cultural dimensions are (1) Power Distance, (2) Uncertainty Avoidance, (3) Individualism versus Collectivism, (4) Masculinity versus Femininity, (5) Long Term versus Short Term Orientation, and (6) Indulgence versus Restraint (Hofstede, 2011). Miska, Szócs and Schiffinger (2018) present culture's effects on CSR practices in their article. The article concentrates on firms' economic, social, and environmental sustainability practices. In conclusion, Miska et al. (2018) found that (1) long term orientation, (2) gender egalitarianism (femininity), (3) uncertainty avoidance, and (4) power distance practices consistently had positive effects on the three CSR dimensions. They also noticed that performance orientation practices had an adverse impact on companies' CSR procedures (Miska et al., 2018).

Peng, Dashdeleg and Chih's (2014) study also examines national culture's influence on CSR practices and the company's engagement on sustainability. Study's definition of national culture is also based on Hofstede's (2011) framework. Findings propose that individualism and uncertainty avoidance have a positive impact on companies' CSR engagement, while a high degree of power distance and masculinity have a negative effect on companies CSR (Peng et al., 2014).

Thanetsunthorn's (2015) study found out that companies operating in countries that have high uncertainty avoidance tend to perform socially responsibly. Ringov and Zollo's (2007) paper states that power distance and masculinity have a negative effect on company's social responsibility performance, while uncertainty avoidance and collectivism do not have a significant impact on companies' CSR (Ringov & Zollo, 2007). Ho, Wang, and Vitell's (2012) study found out that four cultural dimensions (1) uncertainty avoidance, (2) power distance, (3) masculinity and (4) collectivism have all impact on the companies CSR. Cultures with high uncertainty avoidance, masculinity, collectivism and high power distance engage more CSR practices (Ho et al., 2012).

Studies by Peng et al. (2014) and Thanetsunthorn (2015) recommend that MNE managers should consider applying customised CSR strategies in different countries according to their national culture and values, to increase engagement on CSR. Companies should be sensitive to the local contextual environment (Peng et al., 2014; Thanetsunthorn, 2015).

The different studies discussed here have only partially consistent results on culture's effect on the CSR practices. Thus, the impact of national culture on the company's CSR should be examined further (Ringov & Zollo, 2007; Ho et al., 2012; Peng et al., 2014; Thanetsunthorn, 2015; Miska et al., 2018).

## **2.4 Global versus local CSR**

As stated earlier, Wang (2009) proposed creating a localised CSR approach for the companies' Chinese operations. To address the problem of Western CSR concept for not being fit to the Asian context, companies should think about whether to apply a global CSR approach or local CSR approach. There are several different perspectives on the fact whether companies should develop centrally coordinated CSR strategy, which is known as the global CSR, or should they have decentralised and localised CSR, which is known as local CSR (Muller, 2006).

The main difference between the global and local CSR strategies is the community that requires it. Global CSR is from MNC's global perspective, which means that the main requirements are the MNC's obligations which are based on the universal standards that are common to all nations. In contrast, the local CSR is based on the local community's standards (Husted & Allen, 2006).

Different advantages and disadvantages can be identified with global and local CSR. The main advantages and disadvantages of global and local CSR in MNCs are identified in Table 2. Having a global centralised CSR strategy may be proactive, more efficient, and integrated, but usually lack the ownership and legitimacy in the local environment. Locally developed regional CSR strategy should be adopted to the local environment in cooperation with local stakeholders, in this way the CSR strategy responds to the local needs but might be too fragmented in the global perspective and demands a high degree of control and coordination (Muller, 2006; Jamali, 2010).

**Table 2.** Advantages and disadvantages of global and local CSR (Muller, 2006; Jamali, 2010).

	<b>Advantages</b>	<b>Disadvantages</b>
<b>Global CSR</b>	<ul style="list-style-type: none"> <li>- Harmonising CSR standards internationally</li> <li>- Globally integrated strategy</li> <li>- Policies, processes, and structures consistent across cultures</li> </ul>	<ul style="list-style-type: none"> <li>- Not taking local needs into account</li> <li>- Reduced legitimacy</li> <li>- Compliance based strategies</li> <li>- Approaches that live up to minimum host requirements</li> </ul>
<b>Local CSR</b>	<ul style="list-style-type: none"> <li>- Adapted to the local context</li> <li>- Nationally responsive</li> <li>- Takes cultural characteristics (differences and preferences) into account</li> </ul>	<ul style="list-style-type: none"> <li>- Inconsistent strategies</li> <li>- Lack of clear responsibility</li> <li>- Internal tensions</li> <li>- Approaches that live up to minimum global requirements</li> <li>- High control and coordination needed</li> </ul>



Global CSR, which is legitimacy-seeking and homogenising institutional environments, may lead to rational and predictable CSR strategies. Often, Global CSR has been criticised for not delineating patterns and creating an increasing need for institutionally embedded perspectives (Miska, Witt & Stahl, 2016).

Additionally, one should bear in mind that having global or local CSR strategy is not black and white. Thus, a hybrid model or a glocal CSR strategy approach can be executed. The term glocal means the blend of local and global (Masoud, 2017). Masoud (2017) introduces the International Pyramid of CSR in his research. The International pyramid is based on Carroll's (1991) pyramid of CSR, but additionally, the glocal responsibilities are considered. The glocal additions are environmental conditions, socio-cultural matters, users of technology, and political rights. According to Masoud (2017), this model gives a more holistic view of CSR practises in different countries (Masoud, 2017).

A glocal CSR strategy balances between standardisation and localisation to catch the advantages of adapting to the local environment while following the global business strategy (Maynard & Tian, 2004). Jain and De Moya's (2013) research concentrates on the MNCs in India and determines if their strategies are global, local or glocal. Their study finds out that companies that did not have a glocal approach in their strategy lost the opportunity to engage local stakeholders and execute local CSR actions. Jain and De Moya claim that even in the most globalised program, there is a need for the glocalised approach (Jain & De Moya, 2013).

Ye, Lu, Flanagan and Chau (2020) claim that there are four different strategies inside the CSR glocalisation; globalisation, standardisation, localisation, and contextualisation strategies. Firstly, the globalisation strategy includes global CSR issues and universal guidelines. Then, standardisation strategy means the practices that are associated with the global CSR issues. Thirdly, the localisation means the CSR issues related to the host country. Lastly, CSR contextualisation describes the CSR practices related to firm cultural grounding or strong societal needs. Ye's et al. (2020) research gives proposals for the

companies to create behaviour plan to succeed in the international market, instead of using CSR strategy that should fit for all (Ye et al., 2020).

## **2.5 Headquarter - subsidiary relationships**

The main definition of a foreign subsidiary was already introduced in the introductory part of the thesis, and here the definition is more widely explained. Then, the concept of subsidiaries in emerging economies is discussed because China is also considered as an emerging economy (Pereira, Munjal & Nandakumar, 2016). Then, the effect of culture in headquarter (HQ) - subsidiary relationship is discussed (Drogendijk & Holm, 2015). Finally, the impact of HQ-subsidiary relationship on the company's CSR is discussed.

According to Cambridge Dictionary (2020b) 'subsidiary' is shortly defined as a company that is owned by a larger company. However, there is an enormous variety of different multinational subsidiaries. The foreign subsidiary may refer to the company's holdings in a host country or specific entities, such as manufacturing unit or sales operations. Company may establish foreign processes for a variety of motives: resource seeking, market seeking and efficiency-seeking. Foreign operations can also be set in different modes; greenfield, acquisition, wholly owned subsidiary (WOS) or joint venture (Birkinshaw & Hood, 1998).

The legal relationship between the subsidiary and the parent company can vary from the legal holding company to a wholly owned subsidiary (Birkinshaw & Hood, 1998). Although, the headquarters and subsidiary managers often have different perceptions about the role of the subsidiary in the multinational corporation, and these differences have a significant effect on the relationships between headquarters and their subsidiaries (Birkinshaw, Holm & Thilenius, 2000).

Grewal et al. (2013) identify three core dimensions for headquarter – subsidiary relationships: (1) operational coordination, (2) information flow and (3) sentiments. Firstly, MNCs must align their operations across subsidiaries because HQ and subsidiaries are

globally spread with different geographical locations and interests. Task coordination is essential for MNC's operational alignment. Secondly, two-way information flow is a crucial aspect of HQ- subsidiary relationship to achieve consensus and effective decision-making within the MNC. HQ has a global view of the MNC, and it makes decisions and strategies that affect subsidiary, while a subsidiary has valuable information about the local market. Also, sentiments effect to the relationship, when subsidiaries and HQ have institutional and geographical separation disagreements and conflicts are common. MNC should find harmony between different interests in HQs and subsidiaries (Grewal, Kumar, Mallapragada & Saini, 2013).

Kostova et al. (2016) examine 81 articles published between 1968 and 2015. The study aims to investigate how the research on the HQ – subsidiary relationships has evolved within fifty years. There can be three main global trends identified in HQ-subsidiary relationship research: (1) globalisation of Western MNCs, (2) emergence of a multi-polar world, and (3) rise of emerging market MNCs (Kostova, Marano, & Tallman, 2016).

### **2.5.1 Subsidiaries in emerging economies**

Companies from advanced economies are increasingly seeking new resources from emerging economies. Resources also include knowledge and strategic resources; thus, there has been a shift from the traditional role of HQs as the primary source of knowledge. Pereira et al. (2016) concentrate on the dependencies on HQ-subsidiary relationships from both parties' side, where the subsidiary was located in an emerging economy. The study found out that when the subsidiary has access to location-bound advantages, the degree of HQ dependence on the subsidiary is likely to increase. Secondly, at the subsidiary level, the local institutional environments contribute to MNE success in a positive way (Pereira et al., 2016).

China is considered as an emerging economy (Pereira et al. 2016). Lou's (2003) study examines 196 MNE's Chinese subsidiaries and their performance. The research shows that subsidiaries tend to perform better in terms of sales and profitability when there is

resource commitment between HQ and the subsidiary, meaning that the subsidiary is receiving more resources from the HQ. Subsidiaries tend to perform better also if the control from HQ is not rigid (Luo, 2003). Tian's et al. (2014) study finds out that subsidiary performance is linked to the interaction between HQ's international strategy and the subsidiary's business strategy. Whether the Chinese subsidiary is adapting the global or local strategy, has an impact on the performance. Subsidiaries engaging local strategy had more variation in their performance, while those adapting global strategy were performing more stable (Tian & Slocum, 2014).

Even if China is considered as an emerging economy, it is the world's second-largest economy by Gross Domestic Product (GDP) and the largest economy in terms of purchasing price parity. China has made enormous social and economic progress, but still, its income per capita refers to that that China is still a developing country (World Bank, 2019).

### **2.5.2 The effects of culture in HQ – subsidiary relationships**

Hofstede (2011) has introduced the cultural dimensions, which can be used to compare different national cultures. These six dimensions were introduced earlier in chapter 2.3. These six Hofstede's dimensions of national culture can also be used to examine the relationships between parent companies and their subsidiaries. The national culture of headquarters plays a significant role in shaping relationships between HQs and subsidiaries (Harzing & Feely, 2008).

Drogendijk and Holm (2012) examined the importance of one cultural dimension, power distance. They discuss three different positions regarding power distance in HQ – subsidiary relationships: (1) a mutual acceptance of power differences by HQ and subsidiary, (2) an agreement on the equal distribution of power, and (3) HQ and subsidiaries have different power distance practices. Study's results prove that HQ influence on subsidiary competence development is associated with the cultural characteristics of the national environments of the HQ and subsidiary. Research finds out that not only cultural distance

has its effect on the relationship, but all cultural factors have an impact. To have a healthy HQ-subsidary relationship, subsidiary managers' acceptance of power distribution is vital (Drogendijk & Holm, 2012).

Pahlberg's (1995) study states that cultural differences do exist and affect the relationship between HQ and subsidiaries. However, the study's results showed that cultural differences do not cause significant problems in HQ-subsidary relationships. Suppose the HQ has a close relationship with the subsidiary, and the importance of the subsidiary in the network is high. In this case, the need for the HQ to understand the subsidiary's local culture is vital (Pahlberg, 1995).

### **2.5.3 CSR in headquarters and subsidiaries**

The relationships between headquarters and subsidiaries play an important role when planning CSR strategies for MNCs (Cruz & Pedrozo, 2009). Subsidiaries that are dependent on their parent company do not adopt local CSR procedures compared to more independent subsidiaries. Parent companies usually transfer their global CSR practices to all subsidiaries without considering their local environment. Applying global CSR practices, the parent companies may maintain internal legitimacy within the company and subsidiaries (Yang & Rivers, 2009).

Bustamante's study shows that, if subsidiaries can define and influence on their CSR practices at the local level, their commitment and motivation towards CSR issues is increased (Bustamante, 2011). Muller's (2006) study finds out that CSR operations in autonomous subsidiaries were more engaged with the headquarters' global CSR vision than in responding to the local context of the subsidiaries' location. Often the influence power in subsidiaries results in general commitment and motivation towards engaging CSR practices.

## 2.6 Finnish and Chinese business environment

This part will review main points of the Finnish and Chinese business environment because as mentioned earlier culture has its effect on both; the CSR activities (Miska et al., 2018) and the headquarter – subsidiary relationships (Drogendijk & Holm, 2012). Both the differences in the national cultures (Hofstede, 2011) and the differences in the business cultures (Gesteland, 2005) are discussed. Finland and China are two very different economies, as China is the world's second-largest economy by the terms of GDP (World Bank, 2019), while Finland is a small economy with a small population.

Finnish business environment can be described as egalitarian and efficient, but people also value free time (Business in Finland, 2019). Concerning CSR, Finnish companies have succeeded to address several issues, but companies also have a great variety of legal responsibilities, which also affect the welfare of society. Most importantly, northern European welfare states require companies to pay taxes to keep up the welfare society. In terms of CSR, Finland is one of the most competitive countries in the world (Juholin, 2004).

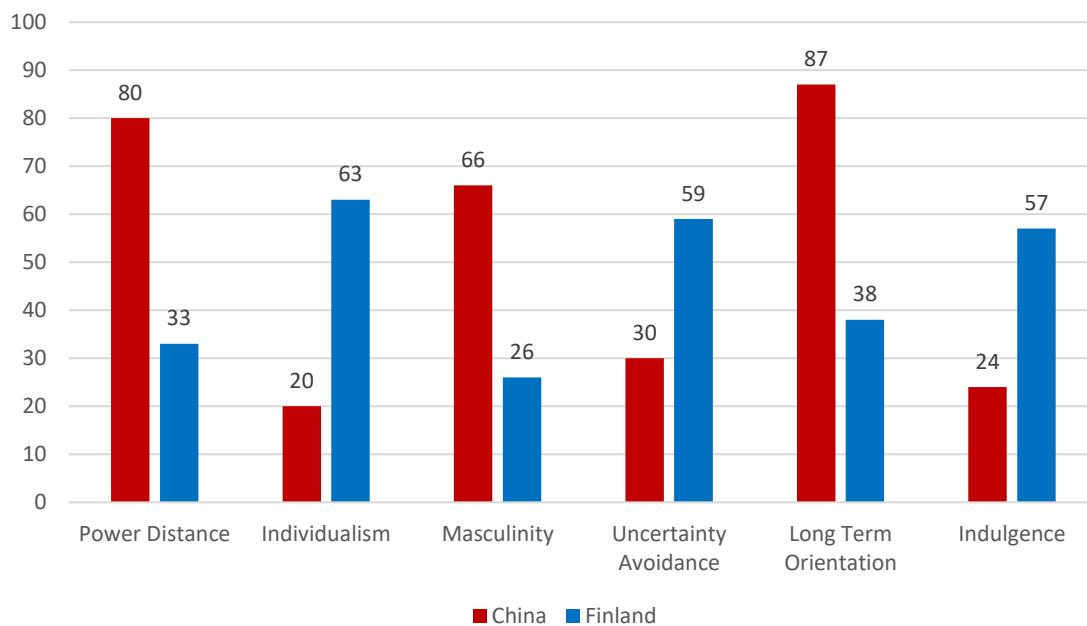
China is a significant economy, but it is also home to various diversified cultures. Chinese business ethics are mostly based on Confucian, Taoist, Buddhist, or Socialist principles, as well as different mixtures of them within the prospective set of ethics. During Communist time in China, since 1949, the authorities have tried replacing the old Confucian traditions. Despite this, the old values have found their place again in the Chinese minds (Ip, 2009). Even if old ethical values are deep in society, the time of industrialisation and profit-seeking have influenced the current state of Chinese companies, making them follow the Western model (Zhang, Morse, Kambhamptati & Li, 2014).

*Guanxi*, which means personal connections, is a vital factor in the Chinese business environment. *Guanxi* is the personal connection between two individuals who have a psychological contract, which includes maintaining a long-term relationship, mutual trust, commitment, loyalty, and obligation. Lately, *guanxi* has also gained importance in

Western literature and research (Chen & Chen, 2004). The concept of *guanxi* should be understood when operating in the Chinese business environment.

### 2.6.1 Chinese and Finnish national cultures

To compare Finnish and Chinese culture, earlier discussed Hofstede's model (2011) could be used to describe the differences in the national cultures. Figure 5 presents the differences in the six main dimensions in the Finnish and Chinese national cultures.



**Figure 5.** Hofstede's dimensions in Finland and China (Hofstede Insights, 2020).

The first columns in Figure 5 show the score for Power Distance in Finland and China. China reaches 80 points, which means that Power Distance is quite characteristics for the Chinese national culture and people tend to accept inequalities in society. Inequalities are less accepted in Finland. Authorities influence the Chinese, while Finnish tend to take their initiative contradictory to the authorities (Hofstede Insights, 2020).

The second columns show that Finland is more individualistic than China. China is a more collectivistic culture which means that people act more in favour of the group than for

the individual. In collectivistic cultures, employees have a low degree of commitment to the organisation, but the personal relationships within the organisation may be vital (Hofstede Insights, 2020).

Chinese culture is considered as masculine, while Finnish culture is among the most feminine cultures in the globe. Masculinity shows a success orientation, such as prioritising the work over leisure. While people from feminine cultures, like Finland, appreciate the quality of life and free time (Hofstede Insights, 2020).

China has a low score on uncertainty avoidance, which means the Chinese are comfortable with ambiguity, tend to be entrepreneurial and adaptable. 70-80 per cent of Chinese companies are small and medium-sized companies. Finnish have a higher score on uncertainty avoidance, meaning they are not as comfortable with ambiguity as Chinese. Finnish are more uncertain about the future and do not want to take risks (Hofstede Insights, 2020).

Chinese culture is very pragmatic due to the high score in Long Term Orientation. The level of pragmatic shows in the fact that people believe that truth depends on the context, and the ability to adapt to changes is higher. Finnish culture tends to be more normative, which means that the traditions and past and present are valued more (Hofstede Insights, 2020).

Last columns show the degree of indulgence. Weak control of your desires and impulses is 'indulgence', and strong control is 'restraint'. China has a restraint culture, which often shows as pessimism and control of the desires. Finnish society, on the other hand, has more indulging characteristics, which means that individuals follow their desires and appreciate leisure time (Hofstede Insights, 2020). These six dimensions of the national culture show that Finnish and Chinese national cultures are different in all mentioned fields; thus, their national cultures can be identified to have other priorities.



### 2.6.2 Chinese and Finnish business cultures

In addition to comparing the national culture, the Finnish and Chinese business cultures can be compared with Gesteland's (2005) model "Patterns of Cross-Cultural Business Behavior". Gesteland's (2005) model includes four different variables to identify national business cultures; (1) Deal-Focus vs Relationship-Focus; (2) Informal vs Formal Cultures; (3) Rigid-time (monochromic) vs Fluid-Time (polychromic) Cultures; (4) Emotionally Expressive vs Emotionally Reserved Cultures. Finnish culture can be categorised to be deal-focused, moderately formal, monochromic, and reserved. There are, for example, other Nordic business cultures, British, Irish, and German in the same category as Finnish. In comparison, the Chinese can be identified as relationship-focused, formal, monochromic, and reserved. Similar business cultures can be found in Japan, South-Korea, and Singapore. These business environment variables in Finland and China can be seen in Table 3.

**Table 3.** The pattern of cross-cultural business behaviour in Finland and China (Gesteland, 2005).

	<b>Finland</b>	<b>China</b>
<b>1) Deal-Focus vs. Relationship-Focus</b>	Deal-Focus	Relationship-Focus
<b>2) Informal vs. Formal Cultures</b>	Moderately formal	Formal
<b>3) Rigid-time (monochromic) vs. Fluid-Time (polychromic) Cultures;</b>	Monochromic	Monochromic
<b>4) Emotionally Expressive vs. Emotionally Reserved Cultures</b>	Reserved	Reserved

The main differences between are within the first two dimensions of the model. Firstly, Finnish people seem to be more deal-focused on business life while Chinese have an emphasis on the relationships. Relationship orientation in business means that firms and business people want to know their prospective business partner before talking about business with them. Chinese may be reluctant towards making deals with strangers.

Relationship orientation can be seen with the Chinese concept of *guanxi*, which means the network of interpersonal connections (Chen & Chen, 2004). In deal-focused markets, business people talk about the business right away and get to know each other during the discussions. Thus, the business deal is more important than an excellent and trustworthy interpersonal relationship (Gesteland, 2005: 29). Overall, it takes time and patience to develop a strong relationship between Finnish and Chinese counterparts, but with a strong interpersonal relationship, the business may last for a lifetime.

Finnish and Chinese culture also differ in terms of formality. Formal cultures tend to have hierarchies of status and power, while informal cultures value egalitarian attitudes. The difference between formal and informal cultures can cause conflicts. People from formal and hierarchical cultures can be offended by the egalitarian behaviour, while people from informal cultures might see formal culture's representative as arrogant and distant (Gesteland, 2005: 47-53). The main barrier that may arise between Finnish and Chinese business counterparts in terms of formality might be the set of hierarchy. Finnish appreciate equality in all levels, while Chinese respect status based on gender, organisational rank, and age.

Similarities can be found from the latter two dimensions of Gesteland's (2005) model. Both business environments have monochromic cultures, and they are emotionally reserved. People from monochromic (rigid-time) cultures appreciate punctuality, setting schedules and having fixed agenda. In comparison, polychromic (fluid-time) cultures are looser with time-related matters (Gesteland, 2005: 59). Finnish and Chinese cultures both being monochromic makes doing business easier when deadlines can be agreed, and meetings go with the same flow.

The difference between emotionally expressive and emotionally reserved cultures occurs mostly in communication because the level expressiveness primarily refers to non-verbal communication. The most reserved cultures are in East and Southeast Asia and Nordic and Germanic countries; thus, Finland and China have reserved cultures. Both

Finnish and Chinese, are low contact cultures, including long physical distance and eye contact, which is characteristic of the reserved culture. Noteworthy is that the meaning of different gestures may differ even between countries that have a reserved culture (Gesteland, 2005: 69-70, 76).

## **2.7 CSR in China**

There is not a specific CSR concept which is created for the Asian region or for the developing countries, and CSR has not been significantly reviewed in the context of the culture in the academic literature. Western academics have created most of the CSR definitions. Often, Western definitions and frameworks may not be directly transferable into other contexts (Sarkar & Searcy, 2016; Wang & Juslin, 2009). Usually, Western CSR definitions do not apply to the Chinese market because definitions do not take the Chinese culture and environment into consideration. For example, characteristics of the Chinese culture is the importance of interpersonal relationships and man-nature harmony. Some cultural aspects are different in the Western business world, which makes the Western concept of CSR unsuitable for Chinese business environment (Wang & Juslin, 2009).

Many differences arise when comparing CSR procedures in the West and Asia. Western companies tend to have more written policies about CSR than Asian companies have. However, Asian companies tend to have more written policies on bribery, corruption, and ethics. Most significant internal CSR challenges in Asia are too long working hours and human right issues. In general, studies show that developed countries have more policies on CSR. For example, in Asia developed nations, such as South Korea and Japan, have advanced CSR procedures (Welford, 2005).

The main principles of CSR have a long history in China through the Confucianism. Confucianism has had its effect on Chinese trading for 2500 years. Confucian values include acting in favour of society, being ethical and fair (Wang & Juslin, 2009). Confucianism has traditionally been hostile to maximising profit and unethical business (Lin, 2010). From 1949, Confucianism lost its importance in planned-economy China, where companies

were state-owned. The government set all the laws and compulsory responsibilities about CSR (Wang & Juslin, 2009). Usually, state-owned enterprises offered educational services, health care, pensions, and facilities for their employees (Lin, 2010).

In 1978 China started its economic reform, but reform affected companies operating in China since 1984 (Zhang, Morse, Kambhampati, & Li, 2014). The reform included establishing private enterprises and joint ventures. During the reform, Chinese enterprises had one goal: maximising profit. Thus, companies were lacking behind in social and environmental responsibilities. During the mid-1990s, the Western concept of CSR started to land in China via multinationals' supply chains when Western companies presented CSR requirements for their Chinese vendors (Wang & Juslin, 2009).

From the beginning of the 21st century, China's government started to accept global CSR policies and government began to apply CSR policies to their five-year-plans. Increasingly China began to apply laws and regulations concerning CSR, not only to export-oriented companies but also to domestic and state-owned companies. CSR became a tool to enhance global competitiveness (Wang & Juslin, 2009).

The history of CSR development in China indicates the importance of defining a culturally specified Chinese CSR concept. Wang and Juslin (2009) propose the harmony approach for Chinese CSR. Harmony approach includes combining global CSR values with Confucian and Taoist harmony, which would make CSR in Chinese context more understandable. Localised Chinese CSR concept can help to overcome defensive attitudes and misunderstandings of CSR (Wang & Juslin, 2009). From a Western perspective implementing CSR to corporations in China is an essential and urgent task, yet for Chinese, the concept of CSR might still be distant subject. Xu and Yang's (2010) research found out that half of the interviewed Chinese business owners did not know the concept of CSR or they had not heard about it earlier (Xu & Yang, 2010).

Major claims against implementing CSR procedures in China are: (1) CSR is an extra activity that companies cannot afford, (2) CSR is a trade barrier against competitiveness, (3) different standards and guidelines of CSR are challenging to manage, (4) labour standards do not accord with Chinese reality and (5) companies cannot compete in price if they implement expensive CSR activities (Wang & Juslin, 2009). Response to enhancing social and environmental standards is not positive. Improving standards increases production costs and Chinese claim that standards do not fit in the Chinese economy, where companies do not have resources to fulfil all the criteria (Lin, 2010). Chinese firms see insufficient support from government and high implementation costs of CSR as primary obstacles to implement CSR to their operations (Graafland & Zhang, 2014).

Although China has invested in CSR activities recently, implementing sustainable policy and making CSR activities effective is a challenge. Some fundamental economic, social and environmental issues still occur; therefore, CSR in China is more about reaching the legislative requirements than investing in philanthropic activities (Graafland & Zhang, 2014).

## **2.8 Managing CSR in subsidiaries – Global vs Local CSR**

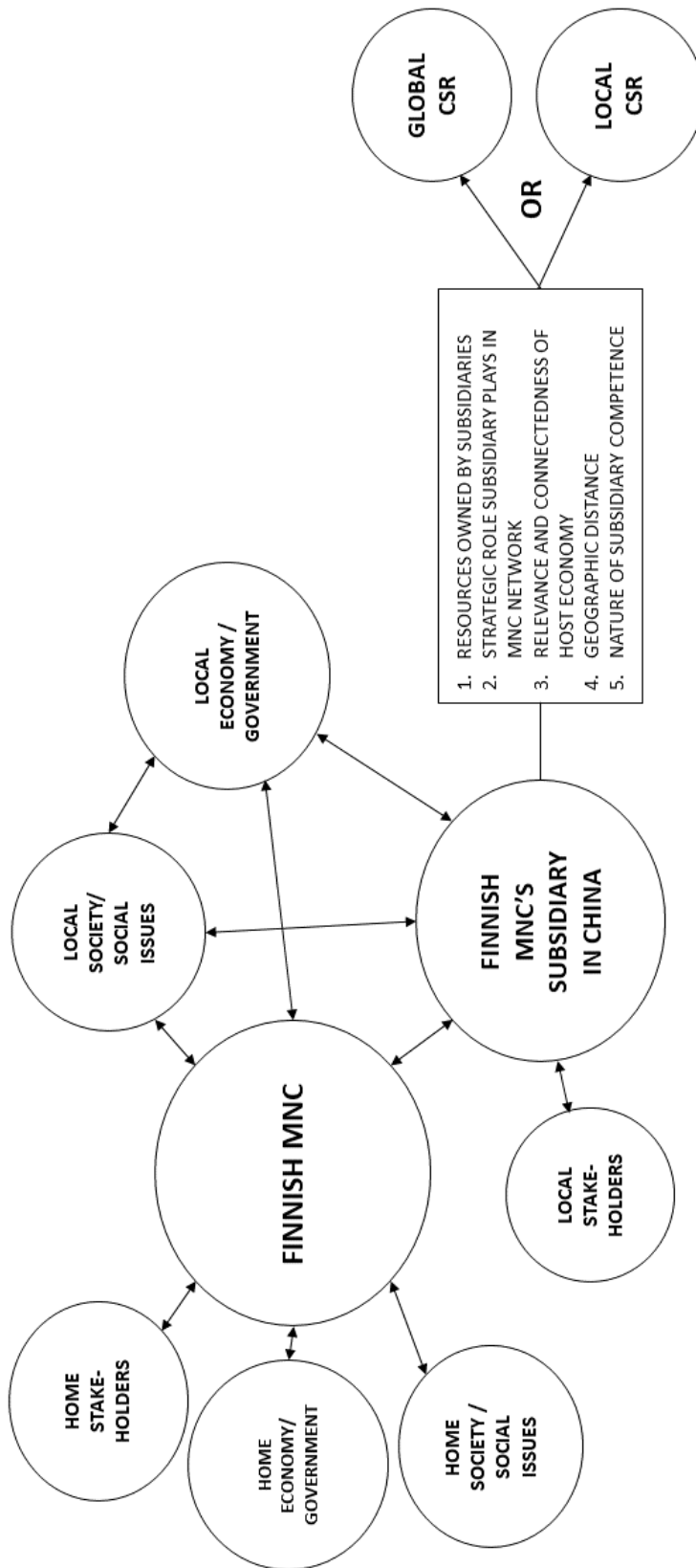
This final part of the theoretical framework chapter concludes the earlier discussed topics into a comprehensive framework, which will be used to analyse the results of the empirical part of this study. The framework discusses what CSR strategy MNC should engage in its subsidiary in an emerging economy.

Creating CSR objectives in MNCs can be challenging because the company must think about the global and local level concerning economic, social, and environmental factors. Additionally, MNC should consider the cultural and social influences at all levels that the MNC is operating on. Measurable targets should be set and controlled continuously with identified proper performance measures (Cruz & Pedrozo, 2009). Figure 6 highlights the relevant factors in the HQ-subsidary relationship concerning the CSR strategy of the MNC. The model helps to understand the fragmented set of external environmental

factors that affect the company's CSR. Understanding these factors help the company to formulate suitable CSR strategy and determine whether global or local CSR strategy is ideal for the organisation (Jamali, 2010). This study concentrates on the Finnish companies CSR in their Chinese subsidiaries; thus, these factors have been considered in Figure 6.

Figure 6 is comprised of the multinational corporation, the subsidiary, the stakeholders, and the influential factors. In this thesis, the multinational corporation is specifically Finnish origin, and it is still having its headquarters in Finland. The foreign subsidiary is specifically a Finnish company's subsidiary, and it is in China. The stakeholder groups identified in the figure are the home stakeholders and the local stakeholders. Home stakeholders are the groups that affect the Finnish HQ, for example, the company's Finnish suppliers or customers. Local stakeholders are groups that are affiliated with the Chinese subsidiary. Stakeholder's location does not matter whether they are working as stakeholders for the HQ or the subsidiary, and some stakeholders may be the same for both entities.

Home economy means the Finnish economy, which affects to the HQ's operations in terms of legal requirements and position in the industry. Local economy and government mean the Chinese economic environment and the legal requirements set by the Chinese government. The local economy affects both the HQ and subsidiary. Home and local society are both affecting the company's operations in the HQ. Still, in the subsidiary, the local society and societal issues have a more significant effect on the processes and strategy.



**Figure 6.** Factors affecting CSR strategies of MNCs and their subsidiaries (adapted from Amba-Rao, 1993; Jamali, 2010).

Noteworthy is the complexity of the international business nature, and thus it is challenging to take all the influential factors into account. Figure 6 is simplified and does not fully resemble the web of networks in the international business. Noteworthy is also that not only the company is under the influence of other stakeholders, but company affects to the environment it is operating.

Global CSR is executed from the MNC's global perspective, and the main requirements are the MNC's obligations which are based on the universal standards. Local CSR means that the CSR is based on the local needs, for example, based on the Chinese subsidiary's local environmental standards of CSR (Husted & Allen, 2006). Having a global centralised CSR strategy may be more efficient and integrated, but usually lack the ownership and legitimacy in the local environment. Local CSR strategy meets the requirements of the local community, but from a global MNC perspective, the CSR strategy might be too fragmented and require a high degree of control (Muller, 2006; Jamali, 2010). The advantages and disadvantages of both the global and local CSR strategy were introduced more broadly in Table 2.

The company should consider whether the engaging global or local CSR is the right strategy for the company and its subsidiary. In addition to the influential factors in the business environment, the following topics should be considered when choosing the suitable CSR strategy: (1) resources owned by subsidiaries, (2) strategic role subsidiary plays in the MNC network, (3) the relevance and connectedness of host economy, (4) geographic distance, and (5) nature of subsidiary competence. Thus, if the subsidiary is physically and mentally close to the HQ and the strategic importance is high, the need for the global strategy has increased. If the subsidiary is a less critical part of the network and is distant to the HQ, the need for fulfilling the local requirements with local CSR is higher.



Various external factors affect CSR strategy planning. However, this framework (Figure 6) helps the company to evaluate the position of the subsidiary and think if the standardised global CSR or localised local CSR strategy is suitable for its subsidiaries.

### **3 Research methodology**

This chapter will introduce the methodological approaches used in the empirical examination, the data collection method and sample description. The last part of the chapter will discuss the credibility of the study.

#### **3.1 Research approach**

This research will take a deductive approach. The deductive approach is the testing of the theoretical strategy, such as the testing of a hypothesis. The deductive approach concerns more scientific research based on an outlined theoretical question which is followed by testing the process (Saunders, Lewis & Thomhill, 2016: 51). Firstly, the theoretical framework is constructed at the end of the literature review chapter, and then the framework is compared to the results and analysis of the data collection.

#### **3.2 Research methods**

There are quantitative and qualitative research methods. This thesis will have a qualitative research method and qualitative interviews. Qualitative interviews aim to produce empirical material for the study. Semi-structured interviews are used as the primary data collection method in this study. The semi-structured interview includes a prepared outline for the interview about the topics or themes but gives freedom for the interviewer to change questions wording or order (Erikson & Kovalainen, 2008: 78, 82). The qualitative research method was chosen for this research because the research aims to explain the behaviour observed and describe the interviewees' thoughts in a natural setting. The research tries to determine the interviewed group's version of reality, while the quantitative researcher would introduce the generic version of reality (Lowhorn, 2007).

Primary data is the data collected by the researcher, for example, using interviews and observations and secondary data means the already existing data. In this study, the primary data is collected by interviewing managers in Finnish companies and the secondary

data was obtained from companies' websites and other publications from the company, such as the sustainability reports (Saunders et al., 2016: 316).

A sample is part of the larger population or a sub-group of that population (Saunders et al., 2016: 202). In this research paper, the sample is the chosen organisations for the interviews and the managers chosen to be interviewed.

### **3.3 Data collection and analysis**

Potential companies for interviews were shortlisted based on the following clauses. Firstly, the company had to have Finnish origin, they have operations in Finland, and their headquarters are in Finland. Secondly, the company must have operations in China by having its own subsidiary or legal entity there. Potential companies and interviewees were contacted with email. Initially, 65 Finnish companies that have operations in China were contacted. The potential companies were sought online (FBCS, 2018; Heino, 2011). Companies' contact information was found from the company websites. Often potential case companies had only a small amount of information about their Chinese operations, or their Chinese operations were in the very initial stage. Four representatives from three different Finnish companies agreed to do an interview about their CSR operations and Chinese subsidiaries position.

The empirical data was collected through interviews which were conducted during October and November in 2019. Interviews were conducted for four different managers from three different companies. More detailed information about the interviewees is presented in Table 4. Questions were sent to the interviewees latest one day before the interview (see Appendices 1). Four interviews were conducted online via Skype, and one interview face-to-face in Helsinki. The duration of the interviews was from 48 to 58 minutes. Company A's and Company C's interviews were conducted in English, and Company B's interview was conducted in Finnish. Company A had two managers as interviewees because the other one had a deeper understanding of the Asian operations, and the other one was involved more in the CSR issues.

**Table 4.** Details of the conducted interviews and the interviewees

<b>Company</b>	<b>Interviewee</b>	<b>Manager's title</b>	<b>Nationality</b>	<b>Gender</b>	<b>Duration of the interview</b>	<b>Data collection method</b>
Company A	Manager 1	Vice President, Quality	Finnish	Male	48 minutes	Semi-structured in- terview
Company A	Manager 2	Vice President, Asian Sales and Market	Indian	Male	48 minutes	Semi-structured in- terview
Company B	Manager 3	Director of Corporate Responsibility and Group Development Projects	Finnish	Male	58 minutes	Semi-structured in- terview
Company C	Manager 4	Director of Corporate Responsibility	Finnish	Male	51 minutes	Semi-structured in- terview

Interviews were recorded, and later the written transcripts of the audio recordings were written. The interview data was analysed based on the written transcripts and the secondary data from case companies' websites and sustainability and annual reports. The primary data, the interview data, was categorised with the coding technique. The content analysis can be started with coding with the predetermined codes. Data that cannot be coded under a predetermined code are identified and analysed, then and determined if they belong to a new category or a subcategory. Adhering to an analytic coding scheme will increase the validity and trustworthiness of the study (Hsieh & Shannon, 2005). Coding was done by marking the different themes of the interview transcripts with different colours. Different entities with the same colour code were combined, and overlapping parts were sought through. After coding, the different themes were analysed and categorised in the findings part with a reflection on the theoretical part of the thesis.

### **3.4 Data credibility**

The final part of the research methodology chapter will discuss data credibility. Credible data means that the data is truthful, and the researcher's interpretation and representation of the interview participant's views is truthful. Credibility can be enhanced by verifying the collected data with the interview participants. A qualitative study is considered credible if the descriptions of human experience are immediately recognised by individuals that share the same experience (Cope, 2014). In this research, the credibility can be enhanced if the interviewees as individuals share the same experiences as the people in similar positions.

Data validity and data reliability are part of the credibility of the research. Reliability of the study means that researcher has a transparent process, follows the existing theoretical contributions, and how consistent findings are produced with the chosen data collection method and analysis techniques (Saunders, Lewis & Thomhill, 2009: 156-157). In other words, reliability is the stability or consistency of the measurements. The measure cannot be valid if it is not reliable, and reliability is necessary, but it is not

sufficient. The unreliability of the study can be, for example, a result of participant error, participant bias, observer error or observer bias (Robson & McCartan, 2016: 105).

Participant error may be dependent on the situation of the interview and all the external factors that affect to the interviewee's answers in the interview situation. Participant bias may mean that the interviewee is answering in the way he sees is the most beneficial for him or in the way he gives the answers that the researcher want. Observer error and bias are similar to the participant's corresponding errors, but only from the researcher's side. To enhance the reliability, diminish the participant error, and avoid misunderstandings, the structure of the interview and the outline of the interview questions were sent to the interviewees beforehand in this research.

Validity refers to the accuracy of the results of the study. The data and the interview analysis should answer the research question and be valid. Two types of validity can be identified: (1) internal validity, and (2) external validity. The internal validity refers to the degree of how well research question is answered by the research method and the analysis of the research data. The external validity is the degree of generalisation of the results to the target population (Robson & McCartan, 2016; Saunders et al., 2009). The aim of this research is to answer the research question, apply the results to the target population and analyse the generalisability of the results.

Validity also depends on the fact that the researcher used direct quotes and the written transcript of the interviews. For example, if the interviewees are not using their first language in the interview, the validity of the study might be affected. In this thesis, three out of four interviews were conducted in the interviewees' mother tongue. Additionally, adhering to an analytic coding scheme will increase the validity and trustworthiness of the study (Hsieh & Shannon, 2005). In this study, an analytical coding scheme was used to analyse the written transcripts of the interviews.

External validity can also be titled as generalisability. There are four threats to the generalisability: (1) selection, meaning that the findings are specific to the group studied, (2) setting, suggesting that findings are a dependant of the setting they took place in, (3) history, historical experiences may affect to the findings, and (4) construct effects, meaning the constructs that are characteristics to the group studied. There are two main strategies to point out that the four threats are discountable: making a case and a demonstration (Robson & McCartan, 2016: 110).

Validity is dependent on the reliability of the study. If one can show that study is valid, it will be reliable as well (Robson & McCartan, 2016: 110). Several factors on the mentioned topics may affect the credibility of this study. The research aims to find out the Finnish companies' manager's perception towards the CSR management in their Chinese subsidiary. The researcher's representation of the interviews is truthful, which affects the credibility of the study. The similarities found in the interview answers make the results credible and generalisable.

## **4 Empirical examination and findings**

The findings of the empirical examination are presented and analysed in this chapter. Firstly, the three case companies are introduced and then the companies' CSR actions are reviewed. The CSR actions part is comprised of four parts: (1) CSR in the case companies, (2) CSR in the case companies' subsidiaries, (3) the challenges, (4) the impact of the culture, and (5) the future of CSR in the case companies. The concluding part discusses the case companies CSR strategy. The empirical examination is based on the semi-structured interviews, and case companies' sustainability reports are used as secondary data. The research design was explained in the previous chapter.

### **4.1 Overview of the case companies**

The case companies are Finnish multinational enterprises that have ongoing operations in China. All three companies can be identified as large companies, according to the European Commission's definition for company size because all case companies have more than 250 employees (Eurostat, 2020). Case companies had revenue between 230 million and 2 659 million to euros in 2019, and thus these companies can be considered as large companies by their financial significance.

#### **4.1.1 Company A**

Company A is providing textile renting services, and it operates in 24 countries in Europe and Asia. Company has over 4,600 employees worldwide, and revenue is over 400 million euros. Company A has been founded in Finland in the middle of the 19th century, but its internationalisation began at the beginning of 1990s. In China, it has been operating since 2006, and currently, they have facilities in Shanghai, Beijing, Guangzhou, and Suzhou.

Manager 1 and Manager 2 emphasise the importance of the company's organisational values in daily working life. They see the values as the base for the sustainable actions



taken by all the employees. Company A's values are comprised of the following themes: profitable growth, responsibility, long-term customer relationships and enthusiasm and the joy of learning.

Interviewed Manager 1 and Manager 2 are working in Company A. Manager 1 is a Senior Vice President in Quality, and his field of expertise are CSR, sustainability, occupational health and safety and environment. Manager 1 has also earlier worked in Company A's Chinese subsidiary in Shanghai. Manager 2 is working as well as Senior Vice President, and he is responsible for the Asian sales and markets.

#### **4.1.2 Company B**

Company B is specialising in indoor air solutions, for example, air solutions in public places, healthcare institutions, professional kitchens, production environments and marine vessels. Company B has over 1,550 employees and revenue of over 230 million euros. Company B was established in Finland in 1960s, and today they are operating in 37 countries worldwide. Among the 37 countries, Company B is operating in China as well. The company entered China in 2005. Now, their factories and sales representatives are in Shanghai. Company's mission is to provide safe, comfortable, and productive indoor air solutions that are energy-efficient and follow the sustainable principles.

The importance of sustainability in business is already stated in the company's mission. Although, according to Manager 3, there have been only a few years since Company B decided to rebrand themselves and emphasise the sustainability topics in their brand and inside the company. The journey towards sustainability is still taking its form. Manager 3 says that motivating the employees to act sustainably is very important, as it also reflects their brand as a sustainable company.

Interviewed Manager 3 is working as a Director of Corporate Responsibility and Group Development Projects in the Company B. Manager 3 has made a long career in Company

B. Earlier, he has worked as a production manager in Finland, and during the last year he started working with CSR in Company B.

#### **4.1.3 Company C**

Company C is working in the chemical industry, and they have two main business segments: (1) Pulp and Paper and (2) Industry and Water. Company C has a long business tradition in Finland, and it was established 100 years ago. Today, they are offering services to improve water, energy, and raw material efficiency. Company C has over 5,000 employees and revenue of over 2,650 million euros. Company C is operating worldwide, and it has facilities in 40 countries. In China, Company C is operating in Shanghai, Nanjing, and Suzhou. There are also R&D facilities in Shanghai. Company C has been operating in the water industry in China since 1999.

Company C is introducing the importance of sustainability already in their organisational values, as along with performance, innovation, customer success, they emphasise the care for people and the environment. Company C identifies seven main corporate sustainability targets: offering sustainable products, reduce emissions affecting climate change, workplace safety, sustainable supplier management, employee engagement, leadership development activities and maintaining the Integrity Index level above the industry average.

According to Manager 4, there has been a positive development towards a more sustainable company during the past year. Manager 4 has not been working in the company for a long time, but he identifies that there has been clear development since he entered the company. According to Manager 4, Company C wants to improve sustainability performance and make it a competitive differentiator in the industry. He states that it has been easier to run through sustainable development as the management board is also agreeing on the importance of sustainability topics.

Interviewed Manager 4 is working as a Director of Corporate Responsibility in the Company C. Manager 4 oversees the company's sustainability, which means he has a broad set of responsibilities in his position. His task is to help different functions to understand what sustainability is, what they could be doing, what they should do and how they could do it.

## **4.2 CSR in the case companies**

The main topics of the CSR in the case companies are their motivation, the state of CSR, the CSR policies and lastly the interviewed managers describe how do they fulfil the economic, environmental, social, and philanthropic responsibilities. Then, the communication between HQ and subsidiary and the CSR in subsidiaries are discussed. Then, the challenges in managing CSR or the subsidiaries, the impact of the culture and the thoughts on the future of CSR are identified.

### **4.2.1 Motivation for CSR**

The interviewed Finnish companies were engaged in CSR actions, and they were doing the CSR reporting, and the sustainability view was already mentioned in the companies' values. Here the primary motivations for these companies to engage CSR beyond the legal minimums are discussed.

Company A's Manager 2 approaches the motivation issue from the individual level. He has several colleagues that have worked for Company A for over 25 years. That shows that the company's culture is suitable for those employees and their individual values are in sync with the organisational values, which are sustainability-driven. Manager 2 admits that personally, Company A's values are reflecting his values and this way motivating him at work. Manager 1 agrees with Manager 2 that Company A's similar values about sustainability are motivating him as well. An excellent motivator for Company A to engage CSR are various business opportunities. As there is a global trend, for example,

about climate change or minimising CO2 emissions, it creates business opportunities for Company A.

Company B's Manager 3 stated that there is motivation among employees, and as a whole company to engage sustainable procedures is to help the world to be a better place. Thus, a lot of motivation comes from individual values and morals. From the business side, Manager 3 emphasises all the new possibilities that come along the sustainability. In their business field, customers want more environmentally friendly or efficient products, and Company B can deliver those and simultaneously give something more sustainable for the business. Acting responsibly opens more doors to innovations and business opportunities. Being a responsible corporate citizen also affects public opinion. Company B wants to be a sustainable actor in the eyes of the public. Thus, Company B has been rebranding their company again from the sustainable actor point of view. They want the public to know what and how they are affecting to the CSR.

Company B's Manager 3 pointed out the importance of acting sustainably from the talent acquisition point of view. Young talents want to work in sustainable companies, which makes sustainable companies more tempting as employers. For many future employees, it is becoming more and more important that the right things are done, and the job itself has a meaning. Also, Manager 4 from Company C underlines that sustainable actions help the company to retain its existing employees and acquire new talents.

Manager 4 says that Company C has followed a similar historical journey as other companies, what comes to the CSR. In the past, Company C looked at sustainability as compliance, which meant that the company needed to comply with specific rules. Later, the motivation for CSR was moving to a more strategic point, which meant that CSR was used risk mitigation point of view. Risk mitigation meant that Company C was not only understanding the regulatory risks but other risks as well. Currently, Manager 4 defined Company C's motivation and the state of CSR and sustainable actions as follows:

*We have moved past the compliance and the risk to look also towards the opportunities. Company C understands that the business concept has changed and more of our customers and business partners are demanding more sustainable products, and if we want to remain competitive in the marketplace, we have to be sustainable. [Manager 4]*

Manager 4 also identifies that seeing sustainability as an opportunity gives the company an advantage to find the right companies to do the R&D with or to help win a tender. Sustainability as an opportunity allows the company to be more innovative and set new constraints. More importantly, Company C wants to link sustainability and profitability, which would make sense from the business perspective too.

Five primary reasons can be identified in the case companies' motivation to engage in CSR and sustainable actions. The five main reasons are (1) individual employees' motivation, (2) business opportunities, (3) talent retention and acquisition, (4) public opinion and demands from the stakeholders, and (5) competitive advantage.

#### **4.2.2 Current state of CSR in the case companies**

Company A identifies its organisational values as the base of their CSR and sustainability. According to Manager 2, Company A has aimed to spell out the organisational values clearly, and the values have remained the same for a long period. Manager 2 also thinks that there is a strong foundation and believe in these organisational values inside the company.

Company A's organisational values are profitable growth, responsibility, long-term customer relationships, and enthusiasm and the joy of learning. Profitable growth is the responsibility towards the organisation in terms of profitability, which means the economic dimension of CSR. Responsibility value includes the environmental, social, and financial responsibility, as in triple bottom line (Elkington, 1997). Company A aims to be responsible for their suppliers by having long contracts. Manager 2 states that they

believe that once they have a lot of passionate and enthusiastic people, the company will have a lot of customers and a healthy financial state. Then, they are in the position to take care of the other elements of CSR.

Manager 1 states that Company A's four core values are in fit with the triple bottom line -thinking (Elkington, 1997). The financial, ecological, and social dimensions are considered as the way of doing the good for the planet, people, and owners or the company. Manager 1 identifies that Company A has a circular business model, where sustainability is the core of the business. Environmental responsibility is an essential part of their operations. Company A has a long tradition of continuously improving energy and water usage efficiency.

Company B is continuously increasing its' global market reach and corporate responsibility issues, and addressing them consistently, has become even more critical. Company B has raised sustainability to be one of their business cornerstones. The development of sustainable practices, systematic documentation and communication will be used to increase Company B's competitiveness and positively affect financial performance. Company B's mission is to enable human wellbeing in demanding indoor environments, which has become even more current topic in nowadays society, even if the mission has remained the same for several years, according to Manager 3.

Manager 4 states that society has been evolving, which means that the definition of sustainability has changed. Currently, evolution can be defined through the UN's Sustainable Development Goals (SDGs) (United Nations, 2020). UN's SDG's give the society a common language to discuss sustainability, for example between with other companies, governments, and with Company C's stakeholders. SDGs include all the elements of sustainability and give a vision of what a sustainable society should look. Manager 4 sees sustainability as what is the vision that the company is trying to achieve across all the dimensions of sustainability and how we can help each other at attaining it.

### 4.2.3 CSR policies

Company A has three central written policies concerning CSR. Most of the CSR related written policies have been published on the company's website and are widely accessible in that way. Company A's Code of Conduct is published as a part of the company's sustainability report, and the Code of Conduct is always part of the supplier contracts according to Manager 1. Additionally, Company A has internal quality, environmental and safety policies, which employees are committed to, and it is available for the company's customers and stakeholders. Similarly, there is a employees' Code of Conduct which is partly overlapping of the two other sustainability-related documents.

Similarly, to Company A, Company B has a Code of Conduct -documents for their suppliers and for their staff, which are also part of the contracts and agreements. Company B has a company-specific document, which is describing the company's values and milestones, where sustainability has been considered.

According to Manager 4, Company C has its written policies about CSR can be found from the company's annual report. Manager 4 points out Company C's structure, which also affects to the CSR reporting and policies. The philosophy and approach for Company C is that they do not want to create a separate CSR or sustainability department, that does only sustainability-related tasks and have sustainability strategy and policies. Instead, Company C wants to integrate CSR into all the existing systems and processes. Every employee should understand what their role in terms of sustainability is. For example, Company C's IT security policy, corporate car policy or safety policy has the sustainability element in it. According to Manager 4, every policy essentially has at least to some degree sustainability integrated into it. They have still improvement to do in integrating the sustainability element to different dimensions of the company, but that is the aim and the policy process.

#### **4.2.4 Fulfilling the responsibilities**

In Carroll's (1991) pyramid of CSR, the responsibilities are divided into economic, environmental, social, and philanthropic responsibilities. The case companies identified how do they fulfil their responsibilities in these four dimensions and gave examples of their projects concerning these elements of corporate responsibilities. The examples provided by the case companies are introduced in Table 5 and explained further below.

Economic responsibilities are defined as the base for CSR (Carroll, 1991). Economic responsibilities have been acknowledged throughout the definitions of CSR. Company A's representative also states that profitable growth makes it possible for the company to continue its operations and then also invest in other dimensions of CSR. Economically, Company A states that they have a responsibility towards society to make money and pay taxes or responsibility towards shareholders, who are investing in the business and would want to see a financially stable organisation. Company B also aims to profitable economic performance through sustainable decisions, such as using local resources and minimising logistical expenses. Company C gives an example of economic responsibility, that company has pursued recently. Company C has negotiated a revolving credit facility with a group of banks. Revolving credit facility essentially means that Company C can get a loan faster as there is already agreed terms of the loan. Company C linked the loan and the terms of that loan to the terms of sustainability. In other words, specific sustainability criteria or targets have been set. If Company C can meet those targets or go above them, they pay less interest on the loan, and vice versa, if they are below of those targets, they must pay more interest on the loan.



**Table 5.** Examples of corporate responsibilities fulfilled by the case companies.

	<b>Company A</b>	<b>Company B</b>	<b>Company C</b>
<b>Economic Responsibilities</b>	<ul style="list-style-type: none"> <li>- Financial responsibility</li> <li>- Profitable growth</li> </ul>	<ul style="list-style-type: none"> <li>- Paying taxes</li> <li>- Using local resources</li> <li>- Minimising logistical expenses</li> </ul>	<ul style="list-style-type: none"> <li>- Example: Revolving credit facility</li> </ul>
<b>Environmental Responsibilities</b>	<ul style="list-style-type: none"> <li>- Minimum criteria: meet the local requirements</li> <li>- Use less water</li> <li>- Bring carbon footprint down</li> </ul>	<ul style="list-style-type: none"> <li>- Energy efficiency</li> <li>- Efficient use of materials, renewables</li> <li>- Making indoor air better quality, air ventilation</li> <li>- Not using toxic chemicals</li> </ul>	<ul style="list-style-type: none"> <li>- Strategy mapped to the sustainability goals (SDG)</li> </ul>
<b>Social Responsibilities</b>	<ul style="list-style-type: none"> <li>- Employees' Code of Conduct equal for everyone</li> <li>- Long-term relationships with our partners and customers</li> <li>- Create an organisation where employees are energetic and passionate</li> </ul>	<ul style="list-style-type: none"> <li>- Employees' well-being, satisfaction, and fair wage</li> <li>- Healthy working environment</li> <li>- Example: the working environment in China</li> <li>- Embrace diversity</li> </ul>	<ul style="list-style-type: none"> <li>- Strategy mapped to the sustainability goals (SDG)</li> </ul>
<b>Philanthropic Responsibilities</b>	<ul style="list-style-type: none"> <li>- Example: UNICEF project in India</li> </ul>	<ul style="list-style-type: none"> <li>- Charity: youth organisations and sports</li> <li>- Example: Company's global foundation</li> </ul>	<ul style="list-style-type: none"> <li>- None</li> </ul>

Environmental responsibilities mean that the company should not risk the future's ecological resources. Actions for environmental responsibility include efficient use of energy, minimising emissions and environmental footprint (Alhaddi, 2015). Company A states that their bare minimum criteria are to follow the local requirements concerning environmental legislation. Manager 2 summarises their environmental responsibilities as follows:

*We are gathering all the local guidelines and policy sets from different industrial bodies or governments in different countries we operate in. So, there is no single uniform environmental policy that covers all the countries in the world, so every country has their own policies. Some countries have a much higher set of policies than others, but we as an organisation have our standards, and we are much better than what is expected by the local governments or the local bodies. [Manager 2]*

Thus, Company A is balancing between several stakeholder group's policies and requirements. Company A is also challenging themselves to improve their environmental sustainability, for example, to use less water and ensure bringing down the carbon footprints.

Company B identifies efficient use of energy, materials, and other resources, as a cornerstone of their environmental policy. Additionally, their products are also made to improve the air quality indoors, and they do not use environmentally harmful toxic materials in their production. Company C gives an example for their environmental and social responsibilities, as during 2019, it was the first time that Company C's strategy was mapped to the sustainability goals. The United Nation's Sustainable Development Goals (SDGs) were linked to all terms of the company's strategy, like their vision, purpose, mission, values, product range, different markets, and customers.

Social responsibilities include taking care of the company's human resources and act in favour of the community, for example, by providing health care and fair wages (Alhaddi, 2015). Company C's representative says that mapping the strategy to the SDGs also covers social responsibilities. Company A says that having the company's Code of Conduct as a part of every contract is an important social responsibility. The employees' Code of Conduct is equally the same for every employee, and it does not depend on, for example, the country of residence. Company A also wants to create a healthy working environment where people are energetic and passionate about what they do. Company A also wants to tie long-term contracts with its suppliers, partners, and customers.

Company B includes employees' well-being, satisfaction, fair wage, and healthy working environment in their primary social responsibilities. They want to give equal working conditions for the employees. Manager 3 gave an example from their Chinese factory concerning working conditions. Finnish HQ's representative visited the Chinese factory to check the working conditions and saw that plenty of employees were working and assembling on the floor. Thus, Company B got new electric tables for Chinese employees. Later, they just found out that the factory employees were not using the tables but continued working on the floor. The aim was to provide equal working conditions for everyone, but Company B probably missed listening to the employees themselves. Company B also wants to embrace their diversity and make it a competence; for example, in their factory in Canada, there are 18 different nationalities and eight different nationalities in a factory in Lahti, Finland.

Philanthropic responsibility means to be a good corporate citizen by improving the quality of life in the community (Carroll, 1991). It is often viewed as the charity actions of the companies. Company C's line is that they do not do philanthropic activities, although they have some sponsorships. Otherwise, they concentrate on three other responsibilities. Company A and B are engaging in philanthropic activities. Company B is doing charity as their philanthropic activity, for example, by supporting local youth sports and organisations, and give donations to different charity organisations. Company B also has

its a foundation that donates their air ventilation products to improve indoor air quality in different locations, for example donating products to the USA to children's asthma association or to Himalaya where people use wooden ovens indoors. Company A has been doing a philanthropic project in cooperation with UNICEF in India for the past 10 to 15 years. In this project, Company A is providing hygiene and sanitary facilities and drinking water facilities for children across villages in India.

### **4.3 Managing CSR in the subsidiaries**

Here the three case companies CSR strategies in their subsidiaries and the ways they are controlling the decision-making are reviewed. The relationships between headquarters and subsidiaries play an important role when planning CSR strategies for MNCs (Cruz & Pedrozo, 2009). Subsidiaries that are dependent on their parent company do not have local CSR policies, and the subsidiaries that can affect to the CSR issues in the local level have a higher degree of motivation to overcome CSR issues (Bustamante, 2011; Yang & Rivers, 2009).

Company A's Manager 1 says that their main principle is that they are willing to localise their decision-making depending on every decision and type of governance structure is existing. The important thing is that CSR is also part of the business decisions as well. Manager 2 says that concerning sustainability, the Company A aims to continuously improve their sustainability actions whether it is the HQ or the subsidiary's regular working methods, and they try to improve them and develop them locally or globally depending on the activity to activity. There is part of CSR activities which are done centrally, for example, cooperation with some organisations, such as UNICEF. Manager 2 concludes the CSR decision-making as follows:

*Some parts are quite localised, through the local decision-making, and then there are some parts that are centrally-governed because it makes it easier to organise it then and then do in a meaningful manner, so it is depending on the place. I would not use so much the word "control" over this activity. I think in our professional*

*organisation, there are people who know their thing and are following the values of the organisation. [Manager 2]*

Manager 1 agrees with Manager 2, what comes to the organisational values and the decision-making across the company. Manager 1 elaborates the importance of organisational values:

*Our guideline is that whenever you are making any decision, you can have your internal debate in front of the mirror. So, is this decision according to our values, so if there is anything in contradiction, you should not make these decisions. It is a very nice and simple guideline. [Manager 1]*

Managers 1 and 2 emphasise the importance of organisational values and principles which affect all employees, whether they are in the HQ or the subsidiary. Company A translates the guidelines to local languages to make sure that everyone is working according to the guidelines and principles. Manager 2 says that the company is very lean, and the relationship between HQ and subsidiary is straightforward. Subsidiaries are self-managed, and there is not much control from the head office, as the subsidiaries are trusted to take care of the business locally. Country management, like Chinese subsidiary's management, reports directly to region management, which is in the HQ. For example, Manager 2 is in the management of the Asian region.

Company B's business is divided into three business areas, where the units are independent. The primary responsibility of decision-making is in the customer interface. The HQ gives the platform for CSR reporting, and the corporate responsibility report is done every other year. The report includes the same indicators for each subsidiary, such as energy usage and waste. For example, Company B's Chinese site had the lowest percentage of the process waste, 11.1 per cent of the total material used, as the whole company's average waste was 32.5 per cent in 2019. Company B also has great trust in the employees' knowledge and responsibility for acting sustainably; thus, the individuals'

values are trusted to be the driver for sustainable decision-making throughout the company.

Company C has been evolving as a company, and during the past year, they have taken a lot of effort to work with climate change, especially in the Chinese market. Company C has been screening what technologies are out there in China and what is the cost of those technologies and what can be applied in Company C's sites and businesses. Company C has currently two separate sites in China, and they are building the third one. Considering climate change, Company C must think in detail the source of electricity and energy for those sites. China is changing its energy sector, but it is still very reliant on coal. Company C must observe the impact of the new site on their emissions and what options do they have on the Chinese market.

Company C is controlling its subsidiaries and decision-making centrally. In the HQ, the highest level of decision making is taken by the management board, which includes the CEO and a couple of people, which has the executive power the decision-making. The management board is accountable for the board of Company C, and they give a lot of guidance to the executive decisions that are taken. Under the executive team, there is the management board, and there are few other structures too, for example, the operational excellence board. Then there are two segments, which are Pulp and Paper -segment and Industry and Water -segment and they have their steering in the groups. What comes to managing the subsidiaries, Manager 4 describes them as follows:

*We actually do not have country-level decision-making. The way you could see that country-level decision-making is at the site level. If the site happens to be in China, the highest authority for that site is the site manager. That site manager is accountable for their leader, who would lead a group of sites in the world. In that sense, we do not have specific country-level decision-making, it is more site-level decision making, and it is a more operational type of responsibility. [Manager 4]*

Strategically, decision-making is always HQ-centred in Company C. Concerning CSR decisions, Manager 4 says he has only little decision-making authority. His task is to make sure that the people who are making the decisions are making informed decisions.

Company C does not have a company structure in terms of independent subsidiaries. There are subsidiaries, because, for example, in China, there needs to be a legal entity to deal with the local requirements of law. Company C operates as a group where all subsidiaries are entirely integrated into the whole system, and there is no independent decision making for the subsidiaries.

#### **4.3.1 CSR reporting**

Company A reports about their CSR actions in their sustainability report. The report includes the actions in the HQ and the subsidiaries. The indicators that Company A is reporting are collected from the country organisations and comprised in the sustainability report. Company A is not reporting one country as its entity from the sustainability point of view. They aim to show the report data which is collected from the countries and then share the best practices and show the examples from different countries. These best practices can be used in the company internally as internal benchmarks as well.

Company B has a corporate responsibility report published every other year. The report is available in English. The report includes data from the whole company, and site- or country-specific data cannot be itemised. Company B does not have other reports concerning sustainability, besides the corporate responsibility report. Manager 3 identifies that it is crucial to have the whistleblower if any actions against organisational values are detected.

In Company C, on each site, the environment, health, and safety and quality managers, input data into a platform that is used to collect data and at the end of the year the data will be analysed and put into the annual report. For example, in the Chinese site, the person responsible for CO2 emissions checks the numbers from their system and inserts

the data in the common platform. The environmental data is collected similarly from each site, and then at HQ, all the results for the whole company can be seen. It is essential that every country is reporting in the same way, understand what numbers are relevant and use the system correctly so that the data is viable centrally as well. Similarly, local human resource (HR) functions collect the data concerning the employees and report it to the HQ via a common platform.

#### **4.3.2 Subsidiaries in emerging economies**

Company A is operating in 24 countries, and they also have subsidiaries in other developing countries besides China. In Asia, Company A has subsidiaries in India, South Korea, and Kazakhstan. The Asian countries have a similar structure in the subsidiaries and have a lot of similarities businesswise. Differences in operating in these countries also arise; for example, in India, every company must keep 2 per cent of their profits towards CSR activities. This is for the companies that are blinded by the profits and do not engage in CSR responsibilities. Therefore, there must be a law to take care of this.

South Korea and Kazakhstan are similar countries to operate as China, according to Manager 2. Although it is noteworthy that every country has its own people culture and then the developing countries are in a different stage, maybe you have other challenges regarding which phase the development they are. Manager 1 notes that when the countries are developing, the movement or the speed of change is enormous compared to the mature countries. As an example, the rate of digitalisation in business in China and other developing countries like India and Russia.

Company B also has actions in other developing countries, and they have operated in Malaysia for several years, since 1995-1996. Manager 3 identifies Malaysian business culture more American or European style of business culture compared to the Chinese business culture. Common for the Malaysian and Chinese subsidiaries is that their employees' job satisfaction level and especially the engagement level is higher than in other parts of Company B.



Company C has subsidiaries in several developing countries. Company C's Brazilian subsidiary is managed in a similar way as the Chinese subsidiary. According to Manager 4, the main differences come from what type of site is in each country and the physical set up. In Uruguay, Company's site is in the middle of nowhere and right next to the customer's pulp and paper mill, and thus the companies have a symbiosis with each other. Company C gets excess energy, heat and steam from the customer's operations, and Company C provides the product for the customer. The differences between each subsidiary are site-related matters like in China; there is a site which is part of the industrial area. The sustainability needs to be thought from a different point of view in each separate location.

#### **4.3.3 CSR strategy**

Company A's environmental strategy aims to minimise environmental impact and consumption. The strategy is common for all bodies in the company. Concerning social responsibilities, the strategy includes health and safety topics. For example, group targets are initialised, like zero accidents and then every subsidiary are asked to report if they have had any accidents and make safety observations. Concerning the follow-up and support mechanisms, the Chinese subsidiary follows a similar path as the other subsidiaries. There needs to be the mechanism that supports the country, also in the daily challenges. There needs to be a right balance between setting initiatives and ensuring that there are resources for the initiatives.

Company B's representative identifies its CSR strategy as being a global CSR strategy. Company B needs to act in the local environment and the customer interface. This approach resembles the Company C's approach to the CSR strategy. Company C does not have a different CSR strategy for its Chinese subsidiary, but they do have other tactics and plans to execute the strategy in the local market. China has different legislation; thus, that needs to be concerned in the strategy execution and, for example, China is starting in the emission trading scene. Therefore, there is a different strategy than, for instance, in the United States that does not emission trading scene.

#### **4.3.4 Succeeding in managing CSR**

Companies were asked to answer whether they felt that they have succeeded in managing CSR in their subsidiary. Company A's representatives give a straightforward affirmative answer. They justify their succession as their organisation has followed the values. Company A has been in the Chinese market for 12-13 years, and they continue to grow there, and they are adding more units and employees in China. Thus, the managers feel like they have succeeded in China businesswise and from the CSR point of view.

Manager 3 says that he feels that they have succeeded in managing CSR related matters in company B. He says that the company structure has helped to reach sustainability goals. The owner is also very sustainability-minded and wants to contribute to sustainability. Company B's organisational values are in line with the CSR requirements, and those values line the business models, for example, taking the environmental aspects into account.

Manager 4 has worked in Company C under a year, although during this time he has witnessed significant changes in Company C's CSR actions. He says that now the management board has a good understanding of what sustainability is, and they have agreed to improve Company C's sustainability performance and make it a competitive differentiator for the company. The management board's blessing towards sustainability makes it easier to communicate sustainability matter to all business functions. Manager 4 said that sustainability was not as important when he entered the Company C. Overall, Manager 4 sees that there has been an improvement, which means that there has been a success in managing CSR, but there is still room for improvements.

#### **4.4 Challenges**

Here the case companies' challenges are reviewed. The challenges are divided into two segments: (1) the challenges in operating in the Chinese subsidiary, and (2) the

challenges concerning managing CSR in the company. Often the physical distance or cultural distance may create a barrier in business relations between HQ and the subsidiaries.

Company A's representatives say that they do not have any challenges in a practical level with their operations in China, due to structured and clear linkage between the HQ and the Chinese subsidiary. Manager 2 admits that there are operational challenges, like in any business, but those are easy to handle with clear company structure and effortless communication channels.

Similarly, concerning managing the CSR in Company A, Manager 2 says straightforwardly that they have not encountered any challenges. Manager 2 says that they have been lucky enough not to face any challenges. He also stresses that if the employees follow the organisational values, these challenges concerning CSR will not occur. Naturally, there are also operational challenges related to CSR, but these can be overcome by sticking to organisational values.

Manager 3 identifies bureaucracy as the main challenge of operating in China. Company C has faced difficulties, but the barrier has not been too significant, as they continue to operate in China. Concerning CSR, the main challenges have been avoided. Manager 3 emphasises the importance of "whistleblowing" in the company, which means that if someone sees something that is not done according to company guidelines and values, there will be intervention. In Company B, the language barrier has affected communicating about CSR for the whole subsidiary. Corporate Responsibility training was held in China, but only the subsidiary managers participated due to the language barrier. However, the subsidiary managers trained the other part of the staff in Chinese.

Manager 4 says that there are not many challenges in the communication between HQ and the subsidiary. Naturally, the different languages pose a challenge, even if Company C's official language is English. Language may be a barrier, but Company C has in key roles, in the critical countries which have larger manufacturing sites, people that are not locals.

For example, in China, the lead of manufacturing is from Austria. He has an impressive track record from Europe but also extensive experience from China. He acts as a bridge in communication with local teams.

Another challenge is culture-bound concerning workplace safety reporting as Company C is tracking two things in safety. Firstly, everything that has gone wrong and secondly, how often people notice something that could go wrong, and thus they could get fixed before they go wrong. One is a lagging indicator, and another one is a leading indicator. Company C has noticed that there is a minimal amount of reporting in China and in most Asian countries of the things that could go wrong. Company C is trying to figure out why the close calls are not registered because it would be odd that there are nearly zero close calls compared to Western sites. Manager 4 thinks that there might be a cultural explanation with the fact of losing face and not wanting to create problems for the site or your manager.

Company C's Manager 4 says that the main challenge in managing CSR in the company is about prioritisation. He says that it is challenging to get people to prioritise sustainability over some other topics. The challenge is to get the sustainability to employees crowded to-do-lists. Challenging is also that it is challenging to convert sustainability into currency as often it is difficult to put a price tag on sustainability. For example, it is difficult to put a price on gender equality. Manager 4 feels like that it is easier to get into people's priority list with significant business potential or profits. Although, there is a way to convert CO2 emissions into dollars; thus, climate change is often in high up in people's priority lists.

The main challenges in the case companies were culture-bound, such as the language barrier. Company A answered that they had not faced significant challenges in managing CSR or the Chinese subsidiary, besides some operational challenges. Company B identifies bureaucracy as the main challenge in operating in China and the language barrier in the CSR related topics. Company C has few culture-bound challenges and language

barrier challenges. Concerning CSR, Company C's Manager 4 feels like the biggest challenge is getting into employees' priority list with sustainability-related matters.

#### **4.5 Impact of the culture**

Here the culture's impacts on the foreign subsidiary management and the CSR management are reviewed. Interviewed managers told their own experiences about culture and especially about the differences between Finnish and Chinese cultures and their effect on the business and the ways of managing subsidiaries and CSR. The differences in the Finnish and Chinese national and business culture were discussed earlier in chapter 2.6. The Finnish and Chinese cultures seem to differ a lot, according to Hofstede's (2011) and Gesteland's (2005) models.

Manager 2 identifies that every culture and country is unique, but the business culture is common for all, and that is why the multinationals can operate globally. Different to the business culture is the people culture and other cultures and traditions. Manager 2 introduces Company A's perception of its subsidiaries' people's culture:

*Company A has laid emphasis on the fact that organisations' different subsidiaries, we really value people from different countries. We are not in the business sending expats from Finland to manage the different subsidiaries, but we believe in the local people and the local culture, and we believe that every country has a lot of competent people and so on to manage the values that we believe. [Manager 2]*

Manager 2 says that it is essential in Company A to appreciate different cultures and countries. Chinese culture is quite different from the Finnish culture, but that is more to the people culture than to the business culture.

Manager 2 says that Company A has not changed its CSR operations in China for the past decade. Meanwhile, the government of China and the companies in China have stressed the importance of sustainability a lot more than before. A decade back, the

concentration was more about development and economy growth and rapid industrialisation. According to Manager 2, the last three years, there has been a lot of talk about sustainability and pollution. Manager 2 thinks that Company A as an organisation is well-placed as they already have mentioned values that they are working within the respect of the market. Now, the local authorities have made sustainability the key important topic for the organisations to follow. Manager 2 says that they have been already in that box for a decade in China.

Manager 3 has visited in Company B's Chinese site and has worked closely with the Chinese operations. He admits that the main challenges are a different way of communication, level of commitment and different ways of business. Communicating is more high-context communication in China, and often 'yes' does not mean a positive response. Level of commitment in the company is also low, according to Manager 3, the most important thing in work is the money, that will be sent to the family. Different ways of business points mainly to corruption and bribes. Company B has zero-tolerance towards corruption, which may sometimes mean that they must lose a tender. On the other hand, Manager 3 says that cultural differences have not affected their CSR activities in China.

Manager 4 from Company C identifies hierarchy as one of the main differences between China and Finland. Chinese business environment is more hierarchical, but Manager 4 says that it often works in favour for Company C, as the things that need to be done will get done and deadlines will adhere. Another main difference is the difference between the style of communication between China and Finland. In China, there is high-context communication, which may cause misunderstandings. Concerning CSR, Manager 4 notes that the Chinese are living closer to the sustainability violations and facing those in their daily life. And from the compliance perspective, if you do something wrong in China, you will get shut down by the government, and you cannot apologise or pay a fine.

Company C's Manager 4 approaches the cultural differences in CSR by looking at the history where CSR has been defined by our needs to be compliant and what risks there

are. In different markets, the legislation has different levels of stringency, and the ambition level is higher in some markets. These are a great driver for the importance of the CSR in each market. Manager 4 gives an example from the United States, where there are fewer actions at the federal level, particularly concerning the environmental level. This means that environmental actions are not prioritised in companies. On the other hand, a large part of the employees think it is more critical to engage in environmentally friendly activities, from a personal point of view, so they do want to do more even if they do not have to.

The main differences in the Finnish and Chinese business environments were the Chinese high-context communication, less commitment to work among Chinese employees, and the higher degree of hierarchy in China. These issues are the main differences in Hofstede's (2011) model as well. Low degree of commitment to work is characteristic of the collectivistic nature of Chinese culture, and a high degree of hierarchy is due to the high degree of Power Distance in China (Hofstede Insights, 2020). The fact that Chinese are suffering from the results of climate change may have a different effect on the perception of CSR, and the government is very strict about CSR violations as well.

Manager 2 identifies that the business culture is similar in all global economies, and only employees' people culture differs, and it can be seen as differences in the working place. Manager 2's point of view differs from Gesteland's (2005) model, where business cultures can be identified to be different in different countries. Finland and China differ mainly in terms of the deal- and relationship-focus in the business. Chinese business culture is characterized by *guanxi*, which means the interpersonal connections' network (Chen & Chen, 2004), while for Finnish having the deal is more important than the interpersonal relationships.

#### 4.6 Future of the CSR in the case companies

Lastly, the future of the companies CSR is reviewed. The case companies' managers shared their thoughts on the future of CSR and the next steps and focus point on the sustainability inside the companies.

Company A believes in their strong values and business culture to ensure a bright future for the company's CSR. Managers 1 and 2 see their business model, textile rental, as a great opportunity for tomorrow as they try to ensure that there is a circular economy and ensure the lifecycle that helps businesses to become more sustainable. Manager 2 notes that if they can penetrate the vast Chinese market, they are doing CSR by spreading the circular economy and ensure that they are creating more and more sustainable operations. Simultaneously, the need for improving sustainability is becoming a larger and larger topic in every organisation. Manager 2 concludes their future of CSR as follows:

*As a financially responsible organisation, we have been able to invest in developing business and building sustainability. That is something that we will continue to develop, not only for the Chinese market but for all markets we are operating.*

*[Manager 2]*

Company B's Manager 3 thinks that CSR related topics will be more and more critical in the future. CSR should also be deeply considered in the customer-relations, and Company B's CSR actions should be in line with the customers' and stakeholders' requirements. The public opinion will shape the corporate life concerning CSR. Company B wants to improve its CSR in all fields in the future, but there will be certainly concentration on environmental actions.

Company C's Manager 4 admits that there is a specific Finnish nature of not making a fuss about what they are doing, even if it is excellent, innovative, and even ground-breaking. The shy nature also affects the business life as Manager 4 thinks that the acceptable practices of CSR are not shared outside the company, or sometimes not even inside the



company. Manager 4 wants to create more stories about the great examples of sustainable procedures in Company C. This is like Company B's new rebranding project, which has been ongoing for a couple of years. Company B wants to communicate more about their CSR and rebrand themselves as a sustainable actor in their industry. A significant part of the rebranding includes also motivating their employees to act for a sustainable future.

Company C's Manager 4 identifies the future in terms of the upcoming topics in the CSR field. Firstly, he says that through the plastics conversations, there will be more focus on waste and recycling. Another important issue will be water and water scarcity. As we have already exceeded one degree of average global temperature rise, and we are starting to see more and more volatile and extreme weather events and almost all those weather events are linked to water. With more and more of those events happening, we are going to get more interested in water and how we manage that as well. Manager 4 also thinks that public and media will become more interested in the details, for example, about supplier's suppliers and origin of data.

Manager 4 thinks that several other companies are moving towards a similar approach that Company C is taking. Company C wants to integrate sustainability into the different fields rather than treat it as a separate topic inside the company. Meaning that, for example, the procurement professional or the finance professional should also understand sustainability. The trend is to move away from generalist way of sustainability and integrating it to be part of every field of expertise.

Generally, Manager 4 sees that the path towards sustainability is in the right direction. He also notes that currently, sustainability is defined based on what is the kind society we want to create. Although, learned from history: people's views, what society should or should not be, keep changing. Manager 4 unwraps the future of companies' sustainability as follows:

*Sustainability will never... it is not a goal... you cannot get there. I think that Company C and other companies are going to become better in terms of sustainability and different times will have different topics that will be prioritised and all the time the same general direction, but we cannot get there. One reason for really never getting there is that there is only so little that you can have little control over, there is always going to be gaps or things that you may have missed. [Manager 4]*

United Nation's Sustainable Development Goals (SDGs) were mentioned by two managers, from Company A and Company C, during the interviews. Also, the companies' sustainability reports are referring to the UN's Sustainable Development Goals as a part of their sustainability and CSR strategy. Company B is as well part of the UN's Global Compact. UN's Global Compact is the world's largest corporate sustainability initiative. Global Compact comprises of companies that work for the SDGs and take actions to advance societal goals (UN Global Compact, 2020). These SDGs can be used to form the CSR strategy. The SDGs also give a guideline on how to manage the CSR in the future.

Overall, the case companies see the need for sustainable actions increasing, and potentially having new topics of concern in the future. Companies need to have CSR as part of their business plan to compete in the market. All case companies will continue developing their CSR actions and trust in continuous improvement and learning.

#### **4.7 CSR strategy – Global or local CSR**

CSR strategies are divided into (1) the global CSR strategy, and (2) the local CSR strategy. The Global CSR is executed from the MNC's global perspective, and the main requirements are the MNC's obligations which are based on the universal standards. Local CSR means that the CSR is based on the local requirements (Husted & Allen, 2006). To summarise the interviewees' answers about the influential factors in managing CSR and the companies' CSR strategies, see Table 6.

**Table 6.** Case companies' CSR strategies and influential factors in the business environment.

<b>Company</b>	<b>Influential factors</b>	<b>CSR strategy (Global vs Local)</b>
Company A	<ul style="list-style-type: none"> <li>- Organisational values</li> <li>- Complying to the global and local requirements of CSR</li> <li>- Legal requirements in the home and host country</li> <li>- Global sustainability issues</li> <li>- Economic performance</li> <li>- Other subsidiaries CSR</li> <li>- The SDGs</li> </ul>	Global with a localised approach
Company B	<ul style="list-style-type: none"> <li>- Complying to the global and local requirements of CSR</li> <li>- Legal requirements in the home and host country</li> <li>- Global sustainability issues</li> <li>- Economic performance</li> <li>- Other subsidiaries CSR</li> <li>- The SDGs</li> </ul>	Global with a localised approach
Company C	<ul style="list-style-type: none"> <li>- Organisational values</li> <li>- Complying to the global and local requirements of CSR</li> <li>- Legal requirements in the home and host country</li> <li>- Global sustainability issues</li> <li>- Economic performance</li> <li>- The SDGs</li> </ul>	Global

The case companies have a global approach to their CSR strategy. Company A and Company B have some degree of decision making in the subsidiary; hence their strategic direction is titled as a global strategy with the localised approach. Company C has a direct global strategy to manage the CSR, and the local perspective has a small effect on the strategy. Companies main direction is to have a global CSR strategy, but operational decision-making concerning CSR is localised. Subsidiaries have their authority over reporting about CSR issues, but they are reporting to the global framework. Having a global centralised CSR strategy may be more efficient and integrated, but usually lack the ownership and legitimacy in the local environment (Muller, 2006; Jamali, 2010).

Although, the case companies have more control over their Chinese subsidiary with the global CSR strategy.

The influential factors are the factor's affecting the company's strategic decision. The requirements are set by the home and host country stakeholders, for example, the public opinion of what is sustainable. The legal requirements are also modifying the CSR strategy, as in China, there might be some other legal minimums to consider in the CSR. Global sustainability issues affect strategy decision-making by giving the idea of what issues should be considered. The economic performance also modifies the strategy, as the companies aim to be profitable entities, the CSR strategy should also consider the economic point of view. Additionally, all the case companies have adopted the UN's Sustainable Development Goals (SDGs) as part of their sustainability strategy.

In addition to the influential factors in the business environment, the following topics should be considered when choosing the suitable CSR strategy: (1) resources owned by subsidiaries, (2) strategic role subsidiary plays in the MNC network, (3) the relevance and connectedness of host economy, (4) geographic distance, and (5) nature of subsidiary competence. Resources owned by the subsidiaries are the human resources of the local economy, or the factories and raw materials in China. As there is a great geographic distance and also a psychic distance between Finland and China, the need for the global strategy is higher, which is applicable for all case companies.

Case companies subsidiaries in China also posed significant importance in the MNC networks, as they had only one or few subsidiaries in China. The Chinese subsidiaries were important linkages to the Asian market. As the physical distance is long and control is needed, and the importance of the subsidiaries in the network is high, the global CSR strategy seems the most natural choice of strategy for all case companies. Subsidiaries are working in the highly competed Chinese market. Still, the case companies have operated in China for a long time now, which means that they have their position in

China in the specific industry. Global strategy is needed to maintain control of the existing supplier chains and the subsidiary.

Noteworthy, is that to what degree the companies' strategies can be identified as glocal strategies or as global strategies with a local operational strategy twist. Glocal CSR strategies are often stated to be suitable for all globalised actions, and there is a need for glocalised approach (Jain & De Moya, 2013; Ye et al., 2020). The case companies had influences of the glocal approach in their CSR strategies, but overall, the strategies are representing more the traditional global CSR strategy form.

Overall, the case companies had adopted a global strategy to manage the CSR. This means that the CSR standards inside the company are more harmonised, the strategy is globally integrated, and policies and processes are consistent across the subsidiaries and equal for all. The main setbacks in the global strategy are that it is not taking local needs into account extensively, legitimacy is reduced, and often, the CSR strategy is more based on the compliance than on the voluntary side.

## 5 Summary and conclusions

The final chapter of the thesis summarises earlier discussed topics and concludes empirical findings by answering the research question. Lastly, the limitations of the study, recommendations for future research, and the managerial implications are discussed.

### 5.1 Summary

The research question and the goals and limitations of this thesis are set in the introductory chapter. The study aims to research how Finnish companies are managing their Chinese subsidiaries. The theoretical part is comprised of the concept of CSR and headquarter-subsidiary relationships. The primarily CSR-related frameworks presented are Carroll's (1991) pyramid of CSR and Elkington's (1997) triple bottom line. Various CSR definitions include at least three dimensions of CSR; economic, social, and environmental responsibilities (see Table 1).

Subsidiaries are companies owned by other companies (Birkinshaw & Hood, 1998). The foreign subsidiary may refer to the home company's holdings in a host country or specific entities, such as manufacturing unit or sales operations. Researches show that subsidiaries that are dependent on their parent company do not adopt local CSR procedures compared to more independent subsidiaries (Yang & Rivers, 2009; Bustamante, 2011).

The concept of CSR and HQ-foreign subsidiary relationships are drawn together with the model for global or local CSR strategy (Jamali, 2010). The model discusses what CSR strategy MNC should engage in its subsidiary in an emerging economy. Global CSR is executed from the MNC's global perspective, and the main requirements are the MNC's obligations which are based on the universal standards. Local CSR means that the CSR is based on the local needs, for example, based on the Chinese subsidiary's local environmental standards of CSR (Husted & Allen, 2006). Additionally, the influential factors in the business environment are affecting the selection of a suitable CSR strategy for the company's subsidiary.

The frame for the thesis' empirical part was set in the research methodology chapter. This research is deductive, and research data collection method was the semi-structured interviews in three case companies. The three case companies are Finnish-origin multinationals that have subsidiaries in China.

The fourth chapter comprised of the introduction of case companies and the findings of the case companies' managers' interviews. Case companies are Company A, Company B and Company C. Company A is working in the textile rental industry, Company B is working with indoor air quality solutions, and Company C is in the chemical industry. All case companies have operations in China, and Company B and Company C also have production facilities in China.

The main reasons for the case companies to engage CSR actions are the individual employees' motivation, business opportunities, talent retention and acquisition, public opinion and demands from the stakeholders, and competitive advantage. Organisational values are base for their CSR in Company A. Company B has increased its global market reach and has raised sustainability to be one of their business cornerstones. Company C has recently mapped SDGs into their corporate strategies. Companies' ways of responding to the different dimension of CSR can be seen in Table 5.

All case companies have a similar type of CSR reporting and similar CSR policies, and they all identify their CSR strategy is a global strategy. Still, the local conditions and requirements are considered. Managers feel that the company has succeeded in managing the CSR, even if there is room for continuous improvement and learning.

The main challenges in the case companies were culture-bound, such as the language barrier. Company A answered that they had not faced significant challenges in managing CSR or the Chinese subsidiary, besides some operational challenges. Company B identifies bureaucracy as the main challenge in operating in China and the language barrier in

the CSR related topics. Company C has few culture-bound challenges and language barrier challenges. Concerning CSR, Company C's Manager 4 feels like the biggest challenge is getting into employees' priority list with sustainability-related matters.

The main differences in the Finnish and Chinese business environments were the Chinese high-context communication, less commitment to work among Chinese employees, and the higher degree of hierarchy in China. The fact that Chinese are suffering from the results of the climate change may have a different effect on the perception of CSR, and the government is very strict about CSR violations as well.

Case companies see their future concerning CSR positive, but also acknowledge that the need for more sustainable actions is increasing and new topics will arise. Also, the case companies need to continuously improve their CSR actions and possibly integrate sustainability into all business functions. All case companies had the UN's SDGs adapted to their CSR operations.

## 5.2 Conclusions

To conclude the empirical part's findings, the research question is answered. The research question of the thesis, presented in the introductory part, is the following:

*How Finnish companies manage Corporate Social Responsibility in their Chinese subsidiaries and overcome the possible challenges?*

According to the empirical examination, the case companies tend to have global CSR strategies, but often operational decision-making concerning CSR is localised. Subsidiaries have their authority over reporting about CSR issues, but they are reporting to the global framework. None of the case companies emphasised that the home market's culture (Finnish) is the driving force in their CSR procedures. *"Think global, act local"* - phrase can be applied to Finnish companies' actions in their Chinese subsidiaries. Noteworthy is that to what degree the companies' strategies can be identified as glocal



strategies or as global strategies with a local operational strategy twist. “Think global, act local” -phrase is widely used among academics that speak for the glocal model of CSR (Masoud, 2017). There are influences of the glocal CSR strategy approach in the case companies CSR strategies. Still, overall, the strategies are representing more the global CSR strategy form with more localised operational strategy.

All case companies’ subsidiaries follow the global model, and often, the follow-up and support mechanisms are similar between different subsidiaries and the headquarter. Even if there is a global CSR strategy within the companies, they do have tactics and plans to execute the strategy in the local market, which makes the strategy to have a localised approach as well. The localisation can be, for example, in the customer interface, where responding to customers’ needs may be contradictory to the global strategy.

Table 7 shows the five factors that should be considered when choosing a CSR strategy in addition to the influential aspects of the business environment. The CSR is managed by creating a suitable strategy for the company, and these five determinants should be considered when making a strategy. Especially Company B and C are positioned in China due to cost-efficient workforce, although also know-how and expertise are valued. Company A is mainly working inside China, and they are not exporting their services. The strategic role of the subsidiaries is significant in all companies, due to the importance of China as a gateway to the Asian market. Similarly, subsidiaries have a close connection to the Finnish host company because of their importance in the network. Geographic distance is long between Finland and China, which requires more control from the Finnish company over its Chinese operations. All companies have operated in China for a significant period, and they have established network in the local market, and thus they have a competitive position in China. However, there are several competitors in the Chinese market, especially in Company A’s service-centred industry.

**Table 7.** Relevant contingencies for the CSR strategy selection (adapted from Jamali, 2010).

	<b>Company A</b>	<b>Company B</b>	<b>Company C</b>
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<b>Resources owned by subsidiaries</b>	Raw materials, labour	Human resources, factories, workforce	Raw materials, factories, labour
<b>Strategic role subsidiary plays in the MNC network</b>	Significant	Significant	Significant
<b>The relevance and connectedness of the host economy</b>	Relevant, somewhat connected	Relevant, somewhat connected	Relevant, connected
<b>Geographic distance</b>	Long-distance	Long-distance	Long-distance
<b>Nature of subsidiary competence</b>	Competent, but position endangered	Competent	Competent

Two interviewees mentioned the United Nation's Sustainable Development Goals (UN's SDGs). And SDGs were mentioned in all case companies' sustainability reports or the in websites. It has been a trend to use these SDGs as part of the CSR strategy formulation. In the case companies SDGs have also in Company C the SDGs are used in the company's CSR extensively. Company C has recently mapped the SDGs to be part of their business strategy's different parts. The SDGs are a straightforward and transparent way of presenting the CSR, in the way that the public and other stakeholders can understand the company's CSR. Various companies use SDGs in their CSR strategy, which makes it easy to compare different companies.

Case companies' global CSR strategies are governed from the headquarter. Finnish companies are using a centralised framework to manage their subsidiaries CSR in China. The subsidiaries' CSR is also managed with CSR related policies and with the requirements for CSR reporting. The central written policies concerning CSR are Code of Conduct -documents, which are part of the employment and supplier contracts. Additionally, there

are, for example, policies relating to the internal quality, environmental, safety policies and organisational values. Company C aims to integrate sustainability into all its existing policies.

The main channel for reporting about CSR in the case companies are the sustainability and CSR reports, which are published every year or every other year. Often, the sustainability reports are part of the annual reports. The reports include CSR actions across the whole company. In all case companies, the CSR-related data is collected across the company and comprised of the sustainability report. The reports are reflecting the state of CSR in the whole company and site- or country-specific data is not presented. It is noteworthy that the country-specific data might tell more about the actual state of companies' CSR by showing which subsidiaries are performing the best in terms of CSR. Still, only the whole company data is presented. The fact that companies have centralised CSR and sustainability reporting system supports the claim that all case companies are engaging global CSR strategy.

Company A and Company B have more localised actions in their global CSR strategy, while Company C's approach is more standardised and headquarter-centred. In Company A and Company B, the global frame is used because it makes it easier to manage the whole network. Still, in Company A and Company B, a lot of subsidiaries decision-making is localised, or the aim is to localise the decision-making, especially in the customer interface. The purpose is to improve all procedures constantly locally or globally.

Company A and Company B emphasised that the individuals' values are trusted to be the driver for sustainable decision-making throughout the company. Which means that the need for centrally governed CSR-related decision-making is more insignificant, and more decision-making is localised. Even if Company A and Company B have localised actions, their whole strategy remains a global CSR strategy due to centrally governed nature and the global framework.

Company C has a more standardised global CSR strategy than Company A and Company B. Company C does not have country-specific decision-making, but they have site-specific decision-making. Site-level decision-making is also a more operational type of decision-making than strategic. Company C operates as a group where all subsidiaries are entirely integrated into the whole system, and strategic decision-making is always HQ-centred in Company C.

The case companies identified only a few challenges in managing the CSR in the subsidiary. The main challenges were the culture-related or the challenges arising from the different business environments. Bureaucracy, language barriers, differences in people culture were mentioned as challenges in operating in China and managing CSR there. Additionally, Company C's representative said that the challenge is to get into people's priority lists inside the company. For some people, sustainability may remain to be an extra cost in the business, as it is still difficult to convert the results of sustainability actions into concrete monetary units.

The main differences between the cultures were Chinese high-context communication, high hierarchy in China, low degree of Chinese employees' commitment to work, the effects of climate change in China versus Finland and strict Chinese government concerning the CSR. These differences are not direct challenges, but some differences may lead to challenges. For example, a hierarchy might be a challenge to the communication flow. Still, on the other hand, the authority is well-listened, and their wishes and orders are strictly followed, which can be beneficial, for example, in keeping to the schedule and meeting the deadlines. To conclude, the challenges were seen mostly as a difference, not a barrier. There were not any significant strategical challenges that were impossible to overcome in the case companies.

Noteworthy is also that the case companies had differences between each other. The main difference is that they are working in different industries. Despite the differences between the case companies, their CSR strategies were similar. The interviewees

brought up the same topics, and interview answers followed a similar path. Thus, the CSR actions may be similar and independent on the industry.

To conclude and answer the research question, based on the empirical findings from the case companies' interviews, the Finnish multinational enterprises manage CSR-related issues in their Chinese subsidiaries with a global CSR strategy, which is HQ-centered tool of decision-making. Challenges identified by the case companies are mainly culture-bound. Still, they have not encountered significant strategic challenges, and operational challenges are mostly just a part of the journey of continuous improvement and learning.

### **5.3 Managerial implications**

This study gives managerial implications for Western-based companies to manage their subsidiary's CSR in an emerging market. The most beneficial implications are for the sustainability managers and the ones responsible for the firms' CSR strategy formulation and implementation.

There is a continuously emerging need for sustainable procedures for companies, from the companies' competitiveness point of view and the global sustainability point of view. Organisations may battle with the dilemma of whether they should adapt to the global CSR strategy or the local CSR strategy. The main managerial implication of the study is to give a benchmark to other organisations, specifically for Finnish companies, to manage their Chinese CSR operations. In this case, all companies were using standardised global CSR strategy to manage the CSR in the foreign subsidiary. Global CSR strategy allows the HQ to have higher control over the whole network.

The UN's SDGs are widely used to explain an organisations way of managing and planning CSR actions. This study showed that all case companies were committed to SDGs to some degree. There is an extensive collection of examples of SDGs used in CSR strategy formulation and implementation that can be used to benchmark.

The thesis also gives an overview of case companies which are working in different industries, but still, their CSR strategies are similar. This implicates that the CSR strategy selection is more dependent on other factors than the industry-specific factors, such as the HQ-subsidary relationship. Thus, managers can benchmark a CSR strategy from a company which is working in a different industry. The research showed that the case companies had a Code of Conduct as the primary sustainability policy, and CSR-related data is comprised in the sustainability report, which is often published annually along with the company's annual report.

The future of the CSR was also discussed in the research. Managers should understand some of the main upcoming trends in the CSR. Forthcoming trends and topics may vary a lot depending on the given point of time. For example, Covid-19 pandemic has changed the companies' policies and procedures in a short period. He and Harris (2020) claim that the pandemic offers excellent opportunities for firms to engage in various CSR initiatives during the crisis, potentially catalyse a new era of CSR development in the long run. Thus, the pandemic has increased the need for companies CSR activities, and it may have changed the scheme for good. Water scarcity is one main global environmental challenge, and fresh water will be a global challenge for an extended period from now.

Overall, the study showed that sustainability managers think that the sustainability will be even more important part of the business in the future and the sustainability should be integrated into all business units instead of having a separate sustainability department.

#### **5.4 Limitations and future research**

The limitations of the study discuss the factors that may have limited the results of the study. The factors that affected the credibility of the research and results. The main limitation of the thesis is that the theoretical approach and the interviewees have been chosen entirely by the author in a subjective manner. The sample size is small, which affects the generalisability of the study. The interviewed case companies are working in

diversified industries, and thus, that affects the generalisability of the study. Interview data is dependent on the time and place of the interview, and only the interviewed managers' point of view is discussed further in the study. There were not many challenges identified by the case companies, which might be the result of the manager's point of view, and they do not want to bring harm to the company's brand or image. As a recommendation for the future, the other employees, besides managers of the case companies could be interviewed, or the sample size could be more extensive, or the sample could be focused on a specific industry.

A significant limitation is that the Chinese subsidiaries' perception towards the CSR or the headquarters was not studied. Having the subsidiaries' representatives' views researched would have increased the transparency of the results. Another recommendation for future research is having both the subsidiaries and the Finnish companies' managers, perspectives on CSR compared.

The concept of CSR from the Asian perspective remains less studied than the Western concept of CSR (Sarkar & Searcy, 2016; Wang & Juslin, 2009). The study examines the established relationships between Finnish companies and their Chinese subsidiaries, but the connection cannot be comprehensively analysed without the other part's, Chinese subsidiary's, point of view. Similarly, in the theoretical part, the used definitions were created by Western academics and none from the Asian academics.

The thesis is concentrating on the Finnish and Chinese companies; the concept might not be directly transferable to all Western HQ – Asian subsidiary -relationships. This study may give directions to manage the subsidiary in an emerging economy from the Finnish companies and managers perspective. Still, the Chinese economy differs a lot from other economically significant emerging economies, like Brazil or Russia. As a recommendation for future research, the HQ-subsidary relationships and CSR could be investigated between other developed countries and emerging economies. For example,

the relationship between Finnish HQ and a Brazilian subsidiary and the possible challenges in managing the CSR related issues.

Noteworthy is that the research was conducted before the effects of the Covid-19 pandemic in 2020. The interviewees' insights may have been changed due to the current situation. The pandemic has reformed the global CSR operations permanently (He and Harris, 2020). Thus, it poses a new potential for future research in the field of subsidiaries CSR.



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## **Appendices**

### **Appendix 1. Questionnaire**

#### **Interview questionnaire**

##### **Background**

1. Position in the company:
2. What are your responsibilities in the company?

##### **CSR in the company**

3. What does Corporate Social Responsibility (CSR) mean to you?
4. What motivates you and your company to engage CSR?
5. What company policies you have about CSR?
6. How do you control CSR decision-making in your company and the company's subsidiaries?
7. How do you fulfil the following responsibilities in your company?
  - Economic responsibilities
  - Environmental responsibilities
  - Social responsibilities
  - Philanthropic responsibilities

##### **Subsidiaries**

8. How the HQ–subsidiary relationship is constructed? How is communication? What are the main challenges?
9. How do you manage and report CSR in your headquarter and in your subsidiaries?

##### **CSR challenges and culture**

10. What has been different between Finnish and Chinese business cultures?
11. Do you have subsidiaries in other developing countries or similar markets, how does it differ?

12. How cultural differences have affected managing CSR in the Chinese subsidiary?
13. Do you have different CSR strategy for the Chinese subsidiary than for HQ? How? (Global vs Local CSR, standardisation vs localisation)
14. What challenges you have encountered, concerning CSR? How have you managed these challenges?
15. Do you feel like you have succeeded in managing CSR in the subsidiary? How?
16. How do you see CSR –issues developing in the future? What will your future focus be on and why?