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The Influence of Multinational Corporations on Institutional Diffusion in Emerging Markets: Evidence from Hiring the Disabled in Korea

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Abstract

Institutional theory has largely ignored the institutional diffusion across borders although it is a common phenomenon in this interconnected world. We examined the influence of the MNC on institutional diffusion in emerging markets. In a research setting of hiring the disabled in Korea, hypotheses were tested with a sample of 948 firms including 101 MNC subsidiaries. Results support the propositions that MNC subsidiaries from major advanced economies hire more disabled workers, and this tendency is diffused to subsidiaries from other countries in Korea. However, we failed to find the evidence that MNC subsidiaries exert isomorphic pressures to local players.

Keywords: institutional theory, multinational corporation, corporate social responsibility, emerging market

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INTRODUCTION

During last decades, institutional theory has gained its own legitimacy among researchers of various disciplines such as sociology (e.g., Mizruchi and Fein 1999), organizational theory (e.g., Baum and Oliver 1991) and strategic management (e.g. Hoskisson *et al.* 2000). One of the main themes of the theory is the diffusion process of a new institution. Exploring why and how an institution diffuses within an organizational field is the main focus of many studies (e.g., Guler, Guillén, and Macpherson 2002; Zucker 1987).

Institutional theory argues that a firm's adoption of a practice is influenced by the institutional environment surrounding the firm (DiMaggio and Powell 1983; Meyer and Rowan 1977). Since many factors of the institutional environment, such as culture and legal systems, are often specific to a nation, organizational practices can be expected to vary across countries (Kostova and Roth 2002). Therefore it is the reasonable direction from the theory that studies have been concentrated on showing and explaining "*similarities* in firms' practices within a national border" and "*dissimilarities* in firms' practices across national borders".

Although the theory made a huge contribution for these research areas, it still has opportunities for expansion. By posing too much focus on *dissimilarities* in firms' behaviors across national borders, it has missed growing *similarities* in firms' behaviors across nations. This happens partly because the organizational field where an institutional diffusion occurs is too narrowly defined (e.g., DiMaggio and Powell 1983). Although some researchers have argued that the concept of organizational field should be extended beyond national borders (Westney 1993), the studies on the global diffusion are still rare (few exceptions include Guler, Guillén, and Macpherson 2002; Kostova and Roth 2002). The lack of the studies is particularly remarkable because, in reality, the world has been rapidly interconnected and isomorphic behaviors among the firms beyond national borders are everywhere (Westney 1993). The purpose of this study is to contribute to the theory by filling this void.

In order for the theory to be globally extended, it is necessary to explore new sources of institutional diffusion beyond traditional ones such as nation-states and professionals (DiMaggio and Powell 1983). In this paper, we argue that multinational corporations (MNC) may play a significant role in institutional diffusion across borders. Since an MNC subsidiary confronts institutional pressures from both the headquarter and other sister subsidiaries, it may adopt practices institutionalized within the interorganizational network (Ghoshal and Bartlett 1990) rather than within the host country. This tendency will be higher when the subsidiary faces high uncertainty in the host country environment, usually linked to multiple, conflicting constituent pressures (Goodrick and Salancik 1996; Oliver 1991).

In this paper, we examine the corporate social responsibility (CSR) in an emerging market, South Korea. This research setting provides a unique opportunity to test our argument for two reasons. First, since the practice of CSR is only in its semi-institutionalized stage in Korea, both firms' responses and institutional pressures show diversity. CSR has gained special attention since far back in the 1960s in the economically advanced world including the U.S. (Cochran and Wood 1984; Freeman 1984; Vogel 1986) and Europe (Preston, Rey, and Dierkes 1978), and became the biggest corporate fad of the 1990s and the 2000s (Carroll 2004). In emerging markets including Korea, however, such an institution has not yet been strongly established (Amba-Rao 1993). Since these countries often seek both economic growth and social justice simultaneously, organizations often confront multiple conflicting pressures from institutional constituents, which gives more discretion to organizations within the countries and thus causes more diversity (Goodrick and Salancik 1996). This situation of high diversity in both institutional pressures and firms' conformity helps us observe the dynamics among various institutional actors and firms' responses (Powell and DiMaggio 1991).

Second, CSR is a practice that is less directly related to technical efficiency (Meyer and Rowan 1977). In international business field, transfers of practices to subsidiaries are not new and have been frequently discussed. The main argument of this stream is that in order to overcome liability of foreignness and gain competitive advantage over local firms, the MNC should transfer its *strategic organizational practices* to subsidiaries (Hymer 1976; Kostova 1999; Zaheer 1995). Strategic organizational practices include supplier integration, continuous improvement, and total quality management to name a few (Kostova 1999). However, examining these strategic practices in order to explain institutional isomorphism within an MNC network is somewhat difficult because a subsidiary's adoption of strategic practices may result from mixed roles of competitive and institutional pressures (DiMaggio and Powell 1983). In this sense, CSR may be one of the practices that firms adopt more for institutional legitimacy rather than for economic fitness, which shows the effects of institutional pressures more clearly.

THEORY AND HYPOTHESES

A Case of Hiring the Disabled in Korea: A Semi-Institutionalization Stage

In this paper, we narrow our attention to the workplace representation among many issues of CSR. Specifically, we examine institutional pressures for hiring individuals with disabilities in Korea. This practice is chosen because it is in its early stage of diffusion or in its semi-institutionalization stage in Korea (Zucker 1987). In semi-institutionalization stage, according to Tolbert and Zucker (1996), a practice is fairly diffused and has gained some degree of normative acceptance, but it has a relatively short history. Since it is not yet permanent and stable, managers may exercise a significant discretion on the choice of adoption, which gives researchers a unique opportunity to examine the roles of various institutional pressures during institutional diffusion.

In Korea, the awareness of disability has increased only from the late 1980s when the Seoul Paralympics were held in 1988. This increasing awareness ended in a period of active and rapid policy making in the late 1980s and throughout the 1990s. Within the short period of 15 years, all kinds of new disability related programs were introduced; a disability registration system in 1989, anti-discrimination regulations and an employment quota scheme in 1990, employment promotion and vocational rehabilitation in 2000 (OECD 2003).

Korean government has been applying a mandatory employment quota scheme that was first introduced in 1990; every private and public employer with more than 300 employees should provide work for people with disabilities for at least 2% of their total employees.[1] However, only one in six employers fulfilled entire quota, and only 46% in private sector and 72% in public sector were fulfilled in 1999 (OECD 2003). Although the numbers continuously increased to 56% in private and 80% in public by 2001, they were still much lower than other developed countries. For example, in Japan, an economically developed country having a similar quota scheme, 83% in private sector and more than 100% in public sector were fulfilled in 2001. In France, although the quota is 6%, a three-time higher quota to the firms with more than only 19 employees, 67% of all quota places were filled and four in ten employers fulfilled the entire quota in the same period (OECD 2003).

This happens partly because the government lacks required resources and capabilities to enforce the policy effectively. For example, although it is a necessary condition to educate and train people with disabilities in order to enhance their employability, the government simply cannot afford it. The public expenditure on disability-related programs as a percentage of GDP in Korea is lowest among the OECD countries; it is only 0.29% while OECD average is 2.42% (OECD 2003).

Another reason is that hiring people with disabilities has not gained strong legitimacy from major constituents of the society yet. Although the laws are established, the economic-growth mentality has been obsessing government officials, firm managers and the general public, which impedes the institutionalization of the practice. Preoccupied with economic development, the government maintained close relationship with business but not with other constituents of the society during the developmental period from the 1960s to the 70s (Shin 2000). Policy makers of consecutive regimes also set economic growth as the fundamental goal and pursued a coherent strategy to achieve it, which caused explicit subordination of social policy to

1) The quota changed from 1% in 1990 and 1.6% in 1992 to 2% in 1993. And the policy was extended to the firms with more than 50 employees in 2004.

economic policy and economic growth (Shin and Shaw 2003).

The general public in Korea was excited at the remarkable economic growth of the nation often expressed as "*The Miracle of the Han River*", and favorable to the aggressive growth strategy of Korean firms. Reflecting normative expectations of the society, the predominant goal of Korean firms was growth (Scott 1995). Incorporating the government's policies aimed at economic development was considered as firms' primary responsibility for the society. By contributing to the economic growth of the nation, Korean firms were able to gain their strong legitimacy from the society.

This economic-growth-first climate of the society is still discouraging advocates of welfare state from raising social issues such as civil rights and working conditions. Since hiring persons with disabilities is believed to increase costs, to decrease Korean firms' global competitiveness and, ultimately, to endanger the nation's economic prosperity, the practice has not been strongly supported by the institutional context in Korea. As a result, the enforcement of the laws regarding employment of the disabled has been relatively weak. First, large exemptions are granted to many industries. For example, 85% of obligation is exempted in fishery industry and 75% in transportation industry. The average exemption rate in every industry reaches 22% of the entire quota in private sector and 69% in public sector (Korea Labor Institute 2003). Second, formal sanctions, not to mention informal sanctions from the public, are weak. The levy on under-fulfillment has only been 65~75% of minimum wage; about $300 per month for each place not filled (OECD 2003). This levy is believed much less than the additional costs caused by hiring disabled workers. Accommodating and training people with disabilities and productivity loss are largely considered to cost much more than the levy for employers.

In conclusion, the practice of hiring people with disabilities has gained some normative acceptance, but it has failed to gain strong legitimacy from the constituents of the society, and therefore, adopting the practice is largely regarded as discretionary for Korean managers. As a result, only three out of thirty largest Korean business groups were hiring more than 2% of disabled workers in 2003.

The Multinational Corporation: A Source of Institutional Diffusion across Borders

Studies in institutional theory have often been concentrated on showing and explaining *dissimilarities* in firms' practices across national borders. Orrù, Biggart, and Hamilton (1991) found that enterprise groups in Japan, Korea, and Taiwan display distinctive patterns of ownership, management, finance, and production while uniform patterns within each country due to their legitimacy seeking behaviors. Similarly, comparing auto industries in Korea, Taiwan, Spain, and Argentina, Biggart and Guillén (1999) argued that although the four countries held a common aim and employed similar policies, their development patterns differed dramatically because of the difference in institutional arrangements. This research stream, together with single country studies (e.g., Carroll, Goodstein, and Gyenes 1988; Lee and Pennings 2002), emphasizes the endogenous facet of institutionalization (Westney 1993).

More recently, however, growing attention is being paid to "*similarities* in firms' practices across national borders". This research stream suggests that institutional theory should be more developed to explain organizations' *isomorphic* behaviors in a global scale that are becoming more and more common. The researchers of this stream focus on exogenous facet of institutionalization (Guler, Guillén, and Macpherson 2002; Meyer *et al.* 1997; Westney 1993). Westney (1993) pointed out that the concept of *organizational field* in institutional theory should be widened to cross national borders because of the emergence of global industries since the 1970s. In a global industry, rivals compete against each other on a truly worldwide basis. They share the recognition of competitors from several countries that they are, in fact, global competitors operating in the same space. Therefore, they benchmark each other no matter what their home countries are and, sometimes, no matter what their industries are (Westney 1993). Along with the changes in competitive environments, institutional agencies such as the electric and print media, educational institutions, professional accreditation, and consulting firms are increasingly spanning borders in a variety of ways to foster the spread of organizational practices worldwide (Rosenzweig and Singh 1991).

Some researchers have recently recognized the *multinational corporation* as a possible source of institutional isomorphism across national borders while institutional theorists have largely ignored its roles (Rosenzweig and Singh 1991; Westney 1993). Westney (1993: 74), for example, pointed out that MNC subsidiaries in some countries play a major role in establishing what Meyer and Rowan (1977) called 'the building blocks of organization'. She argued that the dominance of foreign-owned subsidiaries in Canada and Australia was the major influence on the institutionalization of patterns of organization and expenditure in R&D, so that local firms followed patterns institutionalized by the MNC subsidiaries. Rosenzweig and Singh (1991: 354) took another example. Opening a luxury hotel in Hong Kong, Marriott hired employees to work a five-day workweek, challenging the local norm of a six-day workweek. The corporation was following the labor practices it uses everywhere in the world, except Saudi Arabia, where the five-day workweek is prohibited by law. Despite punitive efforts by local firms, Hong Kong's prevailing management practices and perceptions of appropriate human resource management were likely to be changed by the introduction of practices from an American company's foreign subsidiary. Similarly, Langlois and Schlegelmilch (1990) asserted that writing codes of ethics is an essentially American practice, and has made its way to Europe via the subsidiaries of U.S. firms.

The MNC has dual characteristics. On the one hand, an MNC can be viewed as *a group of autonomous subunits* facing different institutional pressures from various nation-specific environments (Jarillo and Martinez 1990; Taggart 1998). Each subunit — subsidiary — operates within a different national border, and faces different institutional environment from subunits in other countries. In this situation, institutional theory, in general, may predict that each subunit should follow different institutional rules specified by the national environment in which it operates in order to gain *external* legitimacy, and therefore, should be identical with local firms (Kostova and Zaheer 1999; Westney 1993). On the other hand, an MNC can be viewed as *a unitary organization* (Ghoshal and Westney 1993; Rosenzweig and Singh 1991; Sundaram and Black 1992), sharing a same objective and hierarchical order. *Organization-as-*

institution approach of institutional theory (Zucker 1977, 1983), although it does not specifically mention the MNC, suggests that institutional elements of subunits can arise from within the organization itself as well as from other organizations. These institutional elements — structures, policies and practices ? are more easily transmitted to newcomers and new subunits than those embedded in alternative social coordination structures, are maintained over a long period of time without further justification or elaboration, and are highly resistant to change (Zucker 1977, 1983). The resulting *stability* increases effectiveness when it is linked to goals of the organization by creating “routines” that reduce search and evaluation costs (Zucker 1987: 446).

Based on the definition of the MNC as a *internally differentiated interorganizational network* (Ghoshal and Bartlett 1990), which has both characteristics simultaneously, a recent research stream, narrowly focused on MNCs, argues that an MNC forms micro-institutional environment to the subunits within its boundary regardless of their host countries, and this micro-institutional environment exerts the institutional pressure to those subunits (e.g., Davis, Desai, and Francis 2000; Kostova and Zaheer 1999; Yiu and Makino 2002). Following this stream, we may argue that a subsidiary of an MNC is under coercive, mimetic and normative pressures to be isomorphic with the parent and sister subsidiaries in regard to its organizational practices.

First, the MNC headquarter exerts *coercive* pressures to subsidiaries to be isomorphic with the parent and sister subsidiaries either to transfer its competitive advantage (Kostova 1999; Rosenzweig and Singh 1991; Zaheer 1995) or to coordinate its subsidiaries (Doz and Prahalad 1984). The MNC headquarter sometimes exercises its formal authority to subsidiaries operating in various countries to adopt its specific organizational practices for strategic purposes. This transfer is critical for an MNC’s success because the primary advantage that a multinational firm brings to foreign markets where it faces liability foreignness is the superior organizational capabilities that can be utilized in its subsidiaries worldwide. Therefore, this issue has been one of the main topics among researchers in international business (e.g., Kogut 1991; Kostova 1999).

Forceful adoptions of organizational practices by MNC subsidiaries may also result from control and coordinating demands of MNCs. In MNCs, although coordinating their subunits is more troublesome than in purely domestic firms due to the physical, cultural, and political distances that are generally involved in the crossing of sovereign borders, the importance of coordination is not less than domestic organizations (e.g., Doz and Prahalad 1984; Martinez and Jarillo 1989). Therefore, they actively adopt control devices suggested in organization theory. For example, they use centralization, formalization, and socialization as means of coordination (Bartlett and Ghoshal 1989). These coordinating efforts are often accompanied with transferring a parent practices to subsidiaries. Headquarters may specify subsidiaries' internal financial reporting systems for consistent evaluation and efficient resource allocation (Rosenzweig and Singh 1991) and human resource management practices for internal equity (Rosenzweig and Nohria 1994).

Second, the parent and each subsidiary of an MNC face *mimetic* pressures for conformity due to high uncertainty (Galaskiewicz and Wasserman 1989). When establishing a new subsidiary in a new country, managers of the parent unit face higher uncertainty resulting from lack of necessary information and experiences than local mangers (Guillén 2002). In this situation, they have a high incentive to replicate the practices of the parent and other subsidiaries within the MNC to overcome the uncertainty (Lubatkin *et al.* 1998). This incentive toward mimicry exists within subsidiary managers as well. Subsidiary managers, even after their subsidiary is fairly well established, face uncertainty while managing operations. The uncertainty will be even higher if they are expatriates who are new to the host environment. In this instance, subsidiary managers may prefer to replicate the practices of the parent or sister subsidiaries within the MNC because they are convenient sources of reference that the subsidiary can use, and also because managers can enhance *internal legitimacy* by adopting them (Kostova and Zaheer 1999).

Third, managers in both the parent and subsidiaries may find themselves under *normative* pressures for conformity within the MNC network. MNC headquarters *intentionally* adopt *socialization* as an effective coordinating device (Bartlett and Ghoshal 1989; Edström and Galbraith 1977). Socialization relies on shared norms and values among the dominant coalition of decision-making in both the parent and subsidiaries. This is especially effective when the difference among various countries in which subsidiaries operate is great, so both centralization and formalization are difficult to implement (Sundaram and Black 1992). To build common norms and values, a strong emphasis is placed on selection, training and acculturations of key decision makers, and extensive and open communication among managers in headquarters and subsidiaries (Bartlett and Ghoshal 1989; Martinez and Jarillo 1989).

In addition, socialization efforts often involve extensive transfers of managers and frequent personal contacts among managers through corporate meetings, conferences, management trips and personal visits that all contribute to creation of a "informal network" among managers in various nations regardless of the intention of the headquarter (Edström and Galbraith 1977; Martinez and Jarillo 1989). Norms and values may be institutionalized and transmitted as part of objective reality among the members of the network. In this case, no external motivation for conformity is necessary because the actor is internally motivated to do what he has to do (Zucker 1977).

However, transfer of practices and procedures within the MNC network may be constrained by host country environments. Each country has its own legitimacy requirements. If the legitimacy requirement in the host country is formalized by laws, rules and regulations and strongly enforced, it acts as coercive pressures for conformity to subsidiaries of other nationals. Becoming isomorphic to the institutional rule of the host country regardless of internal legitimacy means just obeying the law. However, when the institutional requirement of the host country is less clear and/or weakly enforced, which is common in emerging markets and which is the case of this paper, subsidiary managers may enjoy considerable discretions (Goodrick and Salancik 1996). This situation makes managers easy to follow the institutional norms of the MNC network rather than to follow them of the host country.

The MNC and Hiring the Disabled in Korea

Unlike emerging markets, corporate social responsibility is well institutionalized to the constituents of societies in major advanced economies. Although firms have adopted various policies, it now seems clear that managers in the regions such as the U.S., Europe and Japan, in common, regard social responsibility of business as a strong institutional rule they should conform to (Preston, Rey, and Dierkes 1978; Sturdivant and Ginter 1977). Interest groups and public awareness on social issues have risen (Freeman 1984), nation-states have eagerly protected interests of stakeholders by legislating and strongly enforcing laws and policies (Donaldson and Preston 1995), and professional associations and business schools have legitimated and diffused many practices of CSR since as early as the 1960s (Donaldson 2003). CSR has been further legitimized as firm managers accept the supposition that actively pursuing CSR is a rationally effective and efficient mean for economic goals (Meyer and Rowan 1977); that is, a positive relationship between CSR and financial performance (e.g., Cornell and Shapiro 1987; McGuire, Sundgren, and Schneeweis 1988).

Institutional elements tend to be imprinted by the institutional environment under which the organization was originally founded (Kogut 1993). Since CSR is strongly legitimated in major advanced economies, the MNC from those regions may have the institutional elements in the form of cultures, structures, or routines within its own system (Scott 1995) and transfer them to its subunits in other countries both intentionally and habitually. In addition, facing uncertainty and lack of knowledge resulting from entering a new market, the MNC may try to learn from other’s experience as well as from its own experience so as to cope with uncertainty. During this process, MNCs tend to imitate actions of other MNCs that are, they believe, primary reference points. Firms regarded as a primary reference point to a firm tend to be those who have relevant history, experience, or location to its own predicament. This tendency generates mimetic isomorphism among MNC subsidiaries from a same home country operating within a same host country (Guillén 2002).

Additionally, in respect to CSR, the MNC from major advanced economies may prefer to conform to the home country's norms since its foreign operations are closely monitored and evaluated by the home country's stakeholders. Now, ignoring them can cause a reputation crisis back in its home country as well as in its host countries (i.e., Nike's crisis during the 1980s). As the existing interest groups are getting more and more global and many of new global interest groups are emerging, this reputation issue is gaining more strategic importance for MNCs from major advanced economies (Sethi 2002; Smith 2003).

> **H1:** Subsidiaries of MNCs from major advanced economies will hire more disabled workers than MNC subsidiaries from other economies and domestic firms in Korea.

Subsidiary managers have isomorphic pressures from the subsidiaries of other MNCs regardless of their home countries as well. First, similarity produces a rapid diffusion because organizations tend to model themselves after similar organizations in their field that they perceive to be more legitimate or successful (DiMaggio and Powell 1983). Since subsidiary managers may perceive that they are in structurally equivalent positions — that is, similar in relations to other population members (i.e., the state, the public and other domestic firms), diffusion of a practice among MNC subsidiary managers may be faster than between MNC subsidiary and domestic firm managers (Strang and Meyer 1994).

Second, subsidiary managers may not only feel similar but also be connected. For example, Korea Foreign Company Association (FORCA), founded in 1977, is an association of MNC subsidiaries in Korea, and has more than 1,500 membership companies. FORCA speaks for foreign companies to domestic business and government, and organizes managers into Business Clubs by industry. It also surveys, analyzes and diffuses the information concerning activities of MNC subsidiaries and changes in domestic environments, and develops codes of conduct for its member companies. Given similarity and connectedness, institutional pressures for mimicry among MNC subsidiaries may be stronger than them between MNC subsidiaries and domestic firms (Strang and Meyer 1994).

H2: MNC subsidiaries, regardless of their home countries, will hire more disabled workers than domestic firms in Korea.

Since multinational corporations are becoming a strong presence, highly visible to the public, government and domestic firms in emerging markets (Carroll 2004; Sethi 2002), and their practices are frequently seen as *advanced and highly rationalized* (DiMaggio and Powell 1983), isomorphic pressures to local players are generated. In this sense, multinational corporations can be one of the major sources of isomorphism across borders in emerging markets.

However, this isomorphic pressure from the MNC subsidiaries is not equally strong to every domestic firm. Since institutional theory posits that a reference group for mimicry involves the actors perceived to be peers by the focal actor, a number of empirical studies of institutional isomorphism have drawn the boundaries of the social system by reference to similarity in terms of organizational characteristics such as size, age, membership in the same industry, and geographic region. The implicit or explicit assumption of these studies is that members sharing similar traits are aware of each other's activities and use this information to compare their practices with others (Fligstein 1991; Guler, Guillén, and Macpherson 2002; Haveman 1993).

When more organizations adopt norms and practices, that is, when there are more MNC subsidiaries in an industry, the norms and practices are increasingly legitimated throughout the industry (Fligstein 1991; Tolbert and Zucker 1983). As norms diffuse more throughout a given sector, an organization in the sector is under the stronger pressures to follow them for both institutional and competitive reasons; minimizing the risk of losing legitimacy, product markets, or sources of supply (Guler, Guillén, and Macpherson 2002). And this tendency can be particularly strong among the firms in a same industry.

H3: A domestic firm in an industry where the dominance of MNC subsidiaries is higher will hire more disabled workers.

METHODS

Data Sources

This research uses the data from Enterprise Panel Survey carried out by the Korea Labor Institute (KLI) in 2004. The survey, conducted by the institute since 2002, is designed to collect the data about firms' practices of human resource management and industrial relations. The questionnaire consists of the items covering a focal firm's financial information, business environment, strategy, organizational structure, human resource management and industrial relation policy. In 2004, the information of 2,004 firms, a sample deliberately designed to represent the whole population by size and industry, was collected between April and June.

The other data source used in this study is the directory of foreign invested companies available online at the website of Korea Ministry of Commerce, Industry and Energy. According to Korean laws, every foreign direct investment (FDI) should be reported to the ministry. The foreign direct investment refers to (1) owning more than 10% of voting stocks or (2) making agreements about appointing officers, providing technology, supplying materials, or purchasing products in order to participate in management (Invest Korea 2005). Based on the reports submitted by foreign nationals or firms, the ministry discloses rich information regarding FDI activities in Korea, one of which is the directory of foreign invested companies. By comparing the company names of respondents and them in the directory, we created two independent variables; "Subsidiary" and "MAC Subsidiary".

Dependent and Independent Variables

The dependent variable of this study is "*Additional Disabled*" that is measured by subtracting the government-mandated quota from the actual number of disabled employees. The Korean government mandates every private and public employer with more than 50 employees to hire people with disabilities more than 2% of their total employees. However, the government allows large exemptions to employers based on industry circumstances. The exemption rate of some industries reaches 85%, and the average is 22% in private sectors and 69% in public sectors (Korea Labor Institute 2003). Therefore, the government-mandated quota is calculated by multiplying 2% of total employees by (1-industry exemption rate).

Three independent variables were added to the empirical model; "Subsidiary", "*MAC Subsidiary*" and "*MNC Dominance*". "*Subsidiary*" is a dummy variable; "1" for an MNC subsidiary, and "0" otherwise. We refer the MNC subsidiary to the foreign invested company defined by Korea Ministry of Commerce, Industry and Energy because this definition clearly separates the FDI from the international portfolio investment. Foreign national's participation in business decision making is required to be a foreign invested company by the definition. "*MAC Subsidiary*" is also a dummy variable; "1" is given to the MNC subsidiary from major advanced countries, and "0" otherwise. We adopted the definition of major advanced economies from the International Monetary Fund (IMF). According to the IMF, countries are divided into three large groups of advanced economies, developing countries and countries in transition. Among advanced economies, the 7 largest in terms of GDP are often referred to as the Group of Seven (G-7) and collectively distinguished as a sub group, major advanced countries (IMF 2005). G-7 countries include the United States, Japan, Germany, France, Italy, the United Kingdom, and Canada. "*MNC Dominance*" is a variable measured by the percentage of MNC subsidiaries within a 2-digit industry.

Control Variables

We included five variables in order to control for the influences of other major actors in institutional diffusion of the practice. Conventional institutional theory focuses on the roles of key actors in institutional diffusion; the nation-states, professions (DiMaggio and Powell 1983) and the general public (Oliver 1991). And it is argued that the closer ties to those actors, the more susceptible to their influences.

First, as consumers of goods and services, states may exert coercive pressures by asking suppliers and contractors to conform to certain procedures and standards (Guler, Guillén, and Macpherson 2002). Since coercive pressures from the state may be stronger when a firm's dependence on the state increases, firms with a revenue structure more dependent on the state may tend to incorporate the state's requirements more eagerly (Edelman 1990; Oliver 1991). Therefore, we controlled for the portion (%) of revenues from public sectors by creating a variable, "*Public Revenue*". Second, another key actor of institutional diffusion is the public that has the important role of setting and maintaining standards of acceptability (Deephouse 1996; Oliver 1991). The pressure from the public increases as organizations are more visible to them. Since listed firms in KSE and KOSDAQ are more exposed, they are more vulnerable to the pressures from the public. "*KSE/KOSDAQ Listing*" is a dummy variable; "1" for a listed company, and "0" otherwise. Third, professionals such as consulting firms and various management associations exercise their control via cognitive and normative processes (Scott 1995). Their pressures may increase as organizations have more relational ties to them, so we included two control variables to our empirical models; the number of management associations that a focal firm has membership ("*Mgt. Association*") and number of consulting projects conducted by outside consulting firms in the past one year ("*Consulting*"). Forth, benchmarking is an activity that causes mimicry among organizations. As a firm conducts this activity more enthusiastically, the firm becomes more similar to others. Therefore, we controlled for this effect by adding the number of benchmarking activities implemented in the past one year ("*Benchmarking*").

We also included a firm's number of total employees and ratio of operating income to sales (%). A series of industry dummies were also added (see table 1).

RESULTS

A total of 2,004 firms responded to 2004 Enterprise Panel Survey. We excluded the firms with less than 50 employees since they have no obligation of hiring the disabled. 525 cases were excluded by this criterion. Because other 531 cases have one or

Table 1. Sample Firms by Industry

Code (2digit)	Industry based on KSIC (Korean Standard Industrial Classification)	Cases
A.	Agriculture and Forestry	4
B.	Fishing	2
C.	Mining and Quarrying	1
D.	Manufacturing	503
15	Food Products and Beverages	44
16	Tobacco Products	3
17	Textiles, Except Sewn Wearing apparel	47
18	Sewn Wearing Apparel and Fur Articles	14
19	Tanning and Dressing of Leather; Luggage and Footwear	11
20	Wood and of Products of Wood and Cork, Except Furniture; Articles of Straw and Plaiting Materials	3
21	Pulp, Paper and Paper Products	15
22	Publishing, Printing and Reproduction of Recorded Media	18
23	Coke, Refined Petroleum Products and Nuclear Fuel	3
24	Chemicals and Chemical Products	61
25	Rubber and Plastic Products	19
26	Other Non-metallic Mineral Products	24
27	Basic Metals	36
28	Fabricated Metal Products, Except Machinery and Furniture	28
29	Other Machinery and Equipment	34
30	Computers and Office Machinery	4
31	Electrical Machinery and Apparatuses n.e.c.	22
32	Electronic Components, Radio, Television and Communication Equipment and Apparatuses	53
33	Medical, Precision and Optical Instruments, Watches and Clocks	11
34	Motor Vehicles, Trailers and Semi-trailers	35
35	Other Transport Equipment	7
36	Furniture; Articles n.e.c.	10
37	Recycling	1
E.	Electricity, Gas and Water Supply	8
F.	Construction	44
G.	Wholesale and Retail Trade	56
H.	Hotels and Restaurants	23
I.	Transport	84
J.	Post and Telecommunications	16
K.	Financial Institutions and Insurance	33
L.	Real Estate and Renting and Leasing	13
M.	Business Activities	106
N.	Public Administration and Defense	2
O.	Education	0
P.	Health and Social Work	21
Q.	Recreational, Cultural and Personal Service Activities	22
R.	Other Community, Repair and Personal Service Activities	10
S.	Private Households with Employed Persons	0
T.	Extra-territorial Organizations and Bodies	0
	Total	948

Table 2. Means, Standard Deviations and Correlations (N = 948)

	Mean	S.D.	1	2	3	4	5	6	7	8	9	10
1. Additional Disabled	-1.91	20.10										
2. MAC Subsidiary	0.08	0.27	.013									
3. Subsidiary 0.11	0.31	.006	.861***									
4. MNC Dominance	10.86	9.91	-.048	.255***	.312***							
5. Public Revenue	7.07	21.07	.027	-.067**	-.084***	-.066**						
6. KSE/KOSDAQListing	0.30	0.46	-.102***	-.007	-.022	.192***	-.094***					
7. Mgt. Association	2.97	4.17	-.171***	.024	.033	.081**	.059*	.217***				
8. Consulting 0.78	1.87	-.140***	.069**	.096***	.115***	-.037	.105***	.202***				
9. Benchmarking	1.07	3.05	-.178***	.060*	.079**	.061*	-.033	.101***	.273***	.384***		
10. Number of Employee	866.34	3200.86	-.513***	.021	.041	.025	-.016	.197***	.061*	.111***	.148***	
11. Operating Income	4.32	26.81	-.020	.015	.032	.060*	.025	.036	.018	.012	.021	.020

* p<0.1, ** p<0.05, *** p<0.01

more missing values, a sample of 948 firms including 101 MNC subsidiaries was finally analyzed. Table 1 shows the number of cases in the sample by industry. Among 101 MNC subsidiaries, 77 MNCs (76.2%) are from major advanced economies (G-7), and the MNCs from Japan and the U.S. are most dominant in the sample (53 cases). Home countries of 23 MNCs (22.8%) are recognized as other advanced economies by the IMF classification; 16 Euro and 7 Asian companies. Only one MNC from a developing country, Malaysia, was included in the sample.

Table 2 shows descriptive statistics and correlations between variables, and table 3 presents the results of the multiple regression analysis with the dependent variable, *Additional Disabled*. Model 1 only includes control variables, while in model 2 the control variables from conventional institutional predictions are added, and model 3 and 4 include the MNC related variables. *Adjusted* R^2 for each model is .292, .318, .320 and .321 respectively. Finally, model 5 includes the variable, "*MNC Dominance*", and the analysis was conducted to 847 domestic firms only.

The result of model 3 shows that hypothesis 1, proposing the positive relationship between MNC subsidiaries from major advanced economies and hiring the disabled workers, is supported at the significance level of 10%. The result of model 4 presents MNC subsidiaries regardless of their home countries

Table 3. Results of Multiple Regression Analysis

	Model 1	Model 2	Model 3	Model 4	Model 5
MAC Subsidiary			3.624*		
			(2.020)		
Subsidiary				3.573**	
				(1.791)	
MNC Dominance					-.027
					(.080)
Public Revenue		.027	.030	.031	.026
		(.028)	(.028)	(.028)	(.029)
KSE/KOSDAQ		2.247*	2.410*	2.477*	2.324
Listing		(1.307)	(1.309)	(1.310)	(1.433)
Mgt. Association		-.684***	-.686***	-.689***	-.738***
		(.141)	(.141)	(.141)	(.151)
Consulting		-.311	-.326	-.344	-.357
		(.319)	(.319)	(.319)	(.349)
Benchmarking		-.377*	-.388*	-.393*	-.368*
		(.201)	(.201)	(.201)	(.218)
Number of Employee	-.004***	-.003***	-.004***	-.004***	-.004***
	(.000)	(.000)	(.000)	(.000)	(.000)
Operating Income	-.003	-.002	-.003	-.003	-.001
	(.021)	(.020)	(.020)	(.020)	(.021)
Industry A	.761	-1.365	-.941	-1.288	-.763
	(8.487)	(8.346)	(8.352)	(8.341)	(9.849)
Industry B	4.069	.814	1.166	1.189	1.079
	(11.978)	(11.791)	(11.779	(11.774)	(12.062)
Industry C	-1.812	-6.003	-5.866	-5.866	-5.449
	(16.929)	(16.786)	(16.767)	(16.760)	(17.137)
Industry E	9.273	11.788	11.744	11.814	15.208
	(6.025)	(6.010)**	(6.003)*	(6.000)*	(6.570)**
Industry F	2.789	2.156	2.566	2.606	2.282
	(2.660)	(2.690)	(2.696)	(2.695)	(2.968)
Industry G	1.859	1.135	1.333	1.333	1.015
	(2.383)	(2.350)	(2.349)	(2.346)	(2.562)
Industry H	1.441	2.230	2.457	2.402	2.777
	(3.606)	(3.626)	(3.624)	(3.621)	(3.964)
Industry I	2.850	1.858	2.338	2.318	1.714
	(1.997)	(2.016)	(2.031)	(2.026)	(2.276)
Industry J	24.656	23.073	23.543	23.408	28.278
	(4.447)***	(4.379)***	(4.381)***	(4.375)***	(4.684)***
Industry K	2.323	1.525	1.889	1.847	1.903
	(3.053)	(3.009)	(3.012)	(3.008)	(3.239)

Table 3. Continued

	Model 1	Model 2	Model 3	Model 4	Model 5
Industry L	-.904	-1.366	-1.145	-1.338	-1.194
	(4.751)	(4.697)	(4.693)	(4.689)	(5.197)
Industry M	-1.501	-1.309	-1.006	-1.050	-.754
	(1.809)	(1.860)	(1.865)	(1.861)	(2.071)
Industry N	55.313	64.257	64.911	65.105	68.330
	(12.057)***	(11.964)***	(11.955)***	(11.952)***	(12.248)***
Industry P	1.164	.839	1.355	441	1.055
	(3.765)	(3.742)	(3.749)	(3.748)	(3.965)
Industry Q	-.382	-.408	.084	.164	-.334
	(3.684)	(3.642)	(3.648)	(3.647)	(3.872)
Industry R	4.397	3.448	3.904	3.610	3.931
	(5.400)	(5.343)	(5.342)	(5.335)	(5.772)
Constant	.072	2.007	1.519	1.458	2.190
	(.779)	(1.000)**	(1.036)	(1.036)	(1.494)
N	948	948	948	948	847
R^2	.306	.335	.337	.338	.377
Adjusted R^2	.292	.318	.320	.321	.359

Standard errors are in parentheses; * p<0.1, ** p<0.05, *** p<0.01

hire more disabled workers than domestic firms, and thus hypothesis 2 is also supported at the significance level of 5%. However, hypothesis 3 that hypothesized the relationship between MNC dominance and mimicry among domestic firms is not supported, which will be discussed later.

Empirical results for control variables in model 2 drawn from conventional institutional theory and experiences of major advanced countries are somewhat notable. While the positive influence of the public on hiring disabled workers is supported, the influence of the government does not appear significant. This may reflect that the government has not been strongly exerting coercive pressures at all. However, industry dummies representing electricity, gas and water supply industries (Industry E), post and telecommunications industries (Industry J), and public administration and defense industries (Industry N) have significant influence on hiring the disabled. These industries are largely composed of (former) pubic owned companies. Therefore, we can argue that although the government does not exert coercive pressures to its suppliers and contractors, it does to the firms it has significant ownership. But this argument is only tentative, and more thorough investigation about the relationship between government ownership and hiring the disabled is required.

The effects of management associations and benchmarking on hiring the disabled are significant at the 1% and 10% level respectively. This implies that a significant influence of professional communities on firms' behaviors regarding CSR does exist in Korea. However, the directions are consistently opposite to the conventional prediction. In the situation where institutions - in this case, economic growth and social justice - conflict each other, sanctions and incentives from the government and the public are weak and mixed, and thus hiring disabled workers is regarded as highly costly, business communities, as an active actor (Oliver 1991; Powell and DiMaggio 1991), may seek their interests rather than conform proactively to the normative guidance from institutional environments. This confirms the argument that norms and institutions affect the behavior of actors by altering benefit/cost calculations (Hechter, Opp, and Wippler 1990) and actors behave expediently; they calculate rewards and penalties, whether these come from other individuals, from organizations, or from the state (Scott 1995).

CONCLUSION AND DISCUSSION

We began this research with an interest in global diffusion of institution. Institutional theory has made an enormous contribution to sociology, organizational theory, strategic management and international business. However, we found that the theory has largely overlooked the migration of institutions across borders. Since many elements in the institutional environment are often specific to a nation, institutional theorists have exclusively focused on domestic diffusion of institutions. We argued this empty space of the theory may be filled by examining the roles of the MNC.

The first major finding of this paper is that the MNC from major advanced economies brings its CSR practices to emerging economies (hypothesis 1). An MNC network exerts coercive, mimetic, and normative pressures to its subunits, and subsidiaries tend to follow the rules institutionalized by their networks and home countries either intentionally or habitually. When institutional requirements of host countries are less clear and weakly enforced, this tendency may be stronger. The second fining of this paper is that mimicry among MNC subsidiaries regardless of their home countries exists (hypothesis 2). The reason is that, given similarity and connectedness, isomorphic pressures among MNC subsidiaries may be stronger than them between subsidiaries and local players.

However, this paper has some limitations. First, this paper does not clarify the motivation of the MNC when it hires disabled workers. It is possible that MNCs in emerging economies hire disable employees not because of wanting to fit in with home country pressures for CSR, but rather because they are more profit motivated than local firms and see an opportunity to partially lower their costs. A systematic comparison of labor costs between disabled and non-disabled workers should be provided in future research. Second, we fail to provide evidence for institutional diffusion from MNC subsidiaries to local firms in emerging markets (hypothesis 3). This result may be partially because domestic firms are under stronger institutional pressures from domestic business communities than from MNC subsidiaries in Korea. The result for control variables in model 2 shows that management associations and benchmarking activities have a negative influence on hiring disabled employees. Another possible reason may lie in limitation of the data source. The data for analysis come from 2004 Enterprise Panel Survey that is cross-sectional rather than longitudinal. Therefore, it is difficult to observe changes in the MNC dominance in a particular industry and reactions of domestic firms to the changes. Future research using longitudinal data sources will be fruitful.

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