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ORIGINAL PAPER

Attention-Based Constraint to MNC Coevolution in China's Changing Stakeholder Environment

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Abstract

The coevolution process enables organizations to adapt to and influence their external environment. Multinational corporations (MNCs) operating in dynamic foreign markets use this capability to achieve operational sustainability. MNCs in China operate in a changing stakeholder environment that features rising consumer activism and local stakeholders' persistent ethical problems and encounter recurrent consumer crises. Coevolving with this environment requires MNCs to react to consumer challenges and actively influence the environment by improving stakeholders' ethical behavior. Based on the attention-based view and bounded rationality studies, we propose that the tension between *expansion attention* and *stakeholder attention* hinders MNCs from coevolving with this environment. Our analysis of MNC-linked consumer crises in China reveals that MNCs can reduce the consumer crisis risk by maintaining continuous attention to improving the ethical behavior of local employees, suppliers, and dealers. In contrast, MNCs' rapid local expansion weakens this stakeholder's attention, expanding MNCs' crisis risk. Our findings reveal an attention-based constraint to MNCs' coevolution and inform approaches to overcoming this constraint. This paper also extends international attention studies by affirming the significance of matching the focus of attention with environmental change for MNCs' operational sustainability in foreign markets.

Keywords Attention-based view · Coevolution · Consumer crisis · Bounded rationality · Stakeholder management · Multinational corporation

Introduction

Coevolving with the external environment is critical to MNCs' operational sustainability in a dynamic global economy that features complex interactions between firms and stakeholders in home and host countries (Cantwell et al., 2010). Coevolution requires MNCs to adjust to the local environment (Cantwell & Mudambi, 2005) and strategically influence the environment (Lewin & Volberda, 1999). For example, MNCs influence and coevolve with the host-country environment by enforcing the self-regulation standards (Kolk & Tulder, 2002), the transfer of home-country practices to alter local stakeholder behaviors (Spencer, 2008), or the application of political power to reshape host-country regulations (Boddewyn & Brewer, 1994).

Existing research focuses on why and how coevolution emerges as a natural outcome of the interplay between managerial actions and multi-level environments, paying little attention to the internal constraints that hinder MNC coevolution (Lewin & Volberda, 1999). MNCs need to create strategic variances and changes that depart from past (often successful) experiences to adapt to and influence the dynamic and uncertain international environment (Cantwell et al., 2010; Lewin et al., 1999). Despite anecdotal theoretical implications (Lewin et al., 1999), rare empirical insights exist about the possible cognitive constraint to MNCs'

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capability of coevolution. This study explores the attention-based constraint to fill in this knowledge gap, suggesting that the tension between different foci of attention handicaps MNCs' capability to pursue alternative strategies to coevolve with the external environment.

The focus of organizational attention describes decision makers' orientation of their time and effort towards noticing, encoding, and interpreting specific problems, opportunities, and threats as they develop organizational agendas (Ocasio, 1997). International business (IB) scholars support that the level of attention (i.e., time and effort) to foreign markets is critical to MNCs' local adaptation and performance (Ambos & Birkinshaw, 2010; Birkinshaw et al., 2007; Bouquet et al., 2009; Durand & Jacqueminet, 2015). However, prior studies treat the focus of attention as given and unproblematic. These studies suggest that MNCs direct attention generically towards a better understanding of local market and competitor characteristics, which downplays the reality that different sets of information compete for managers' selective and scarce attention (Ocasio, 1997). It remains unclear how the focus of attention affects the firm-environment relationship in foreign markets.

We argue that the selective nature of attention can significantly influence MNCs' capability to understand and manage the dynamic environment in foreign markets. Prior studies show that MNCs tend to direct their foci of attention to shareholders or non-shareholding stakeholders (Berman et al., 1999; Crilly & Sloan, 2012, 2014). Inspired by this stakeholder-based divergence of attention, we classify the focus of attention to investigate MNCs' consumer-related ethical challenges in China. This paper focuses on the stakeholder environment in China that MNCs need to coevolve with to address growing consumer challenges due to the local stakeholders' unethical behaviors. Accordingly, we differentiate MNCs' foci of attention on the local business expansion (*expansion attention*) and the social welfare and ethical behavior of local employees, suppliers, and dealers whose actions influence products, services, and ultimately consumer interests (*stakeholder attention*).

Drawing on the attention-based view (Ocasio, 1997) and the notion of bounded rationality (e.g., Buckley et al., 2016; Kano & Verbeke, 2018), we theorize that an MNC's focus on rapid local expansion reduces its attention to local stakeholders' ethical behaviors. This creates a cognitive barrier to the MNC's coevolution with the stakeholder environment in China. On the one hand, MNCs' continuous attention to improving stakeholders' ethical behaviors enables them to change stakeholders' behavior norms in the industry. Stakeholder attention has the potential to address growing ethical challenges in the environment while reshaping the stakeholder environment. On the other hand, the management's limited cognitive capacity, the path dependence effect of organizational attention, and the headquarter (HQ) attention's tendency to control subsidiary attention make it difficult for an expansion-oriented MNC to extend the attention to local stakeholders' ethical behaviors. This attention gap leads to MNCs' failure to identify and deal with the risk of rapid expansion stemming from unethical stakeholder behaviors, increasing MNCs' risk of experiencing ethical challenges in China. Meanwhile, the attention gap makes a firm lose sight of opportunities to improve stakeholders' ethical behaviors and influence the stakeholder environment. The tension between expansion attention and stakeholder attention thus hinders the MNC's coevolution.

We test these arguments in the context of growing consumer crises against MNCs in China (Tan, 2009). Consumer crises describe unexpected, high-profile, and disruptive events (Bundy et al., 2016). MNCs face consumer challenges when consumers perceive MNCs violate their rights. The empirical testing involves interviews with senior managers of five large MNCs in China for preliminary evidence of our theoretical predictions and 92 consumer crises by 68 MNCs from 2000 to 2013 for statistical testing. We found that expansion attention increases MNCs' consumer crisis risk, suggesting their failure to adapt to the rising consumer activism in China in terms of consumers' frequent complaints and attacks against perceived firm misdeeds (Schneider & Kozinets, 2011). In contrast, stakeholder attention reduces the crisis risk since MNCs can effectively adapt to and influence the stakeholder environment by improving stakeholders' ethical behaviors. Meanwhile, expansion attention significantly reduces stakeholder attention, thus weakening MNCs' capability to adapt to and influence the stakeholder environment.

Our findings provide insights into the internal constraint to MNC coevolution. MNCs resort to the adaptation approach to deal with local stakeholders and pursue business growth, aligning business models and strategies with the specific characteristics of the stakeholder environment, such as supplier capabilities and consumption styles (Bartlett & Ghoshal, 1998). In contrast, the coevolution approach recognizes companies' potential to change the stakeholder environment instead of keeping the environment exogenous to their strategies (Lewin & Volberda, 1999). Coevolution in existing studies seems to happen naturally without MNCs' internal constraints (e.g., Cantwell et al., 2010; Tan & Wang, 2011). This study challenges this conventional, albeit implicit, assumption by positing an attention-based constraint to MNCs' coevolution. It also contributes to the literature on MNCs' international attention by elaborating how the fit between the focus of attention and the environmental change affects MNCs' sustainability in foreign operations.

Defining the Context of MNC Coevolution

This paper focuses on a specific stakeholder environment in China centered around the ethical issue of consumer rights. Primary actors in this environment include employees, suppliers, and dealers whose behavior directly influences consumers' experience of products and services and hence their perception of if an MNC fulfills or violates consumer rights. Ethical lapses of these stakeholders persist, such as suppliers' using hazardous materials in food products (Pagnattaro & Peirce, 2010), dealers' financial fraud (Reuters, 2019), local managers' false advertisements (The Wall Street Journal, 2006), or under-trained staff's mislabeling products (The New York Times, 2011).

Meanwhile, China witnesses ongoing changes in the formal (e.g., laws) and informal (e.g., social norms) institutional environment that drives growing social expectations for firms to protect consumer rights. The strengthened formulation and enforcement of consumer protection laws promoted the public knowledge of consumer rights and the growth of consumer demand for rights protection (Zhao et al., 2014b). Consumer rights agencies and mass media were increasingly aggressive in disclosing firm misdeeds and educating consumers on claiming and protecting their rights. Consequently, Chinese consumers became increasingly active in claiming and protecting their rights, giving rise to consumer activism.

MNCs experience consumer crises when rising consumer activism meets persistent ethical problems. Institutional and organizational factors such as strengthened regulatory systems, rising civil society organizations as watchdogs, MNCs' global supplier-chain management, and the background of MNCs' local leadership further fuel this consumer crisis risk (Tan, 2009; Zhao et al., 2014a). Figure 1 shows the growth of nationwide consumer complaints (averaged across regions) and our sample firms' consumer crises from 2000 to 2013. The China Marketization Index (Fan et al., 2011) calculates this changing level of nationwide consumer complaints based on the statistics of the China Consumer Association.

In this background, local employees, suppliers, and dealers have a growing influence on MNCs' operational sustainability beyond their functional role in direct transactions. A nationwide crisis for Heinz in 2005 illustrates this point. Heinz destroyed more than 300,000 bottles of chili sauce in China because they contained Tonyred, a carcinogenic food dye. The firm's local suppliers followed industry norms to use this food dye ten years after regulations barred using this material in food. The crisis generated waves of product return requests from consumers. The suppliers who followed industry norms perceived the use of Tonyred as ethically acceptable, yet consumers believed otherwise. Consumer crises like this type reveal the business risk of MNCs' conventional approach that acquiesces in or appropriates lower social and ethical standards in developing countries (Kolk et al., 1999) and require a coevolution approach to support operational sustainability. MNCs need to actively improve stakeholders' ethical behavior (e.g., upgrading suppliers' ethical standards through routine training and audits) to coevolve with the environment rather than relying on public relations management approaches (Wu & Davidson, 2011) to react to consumers' challenges.

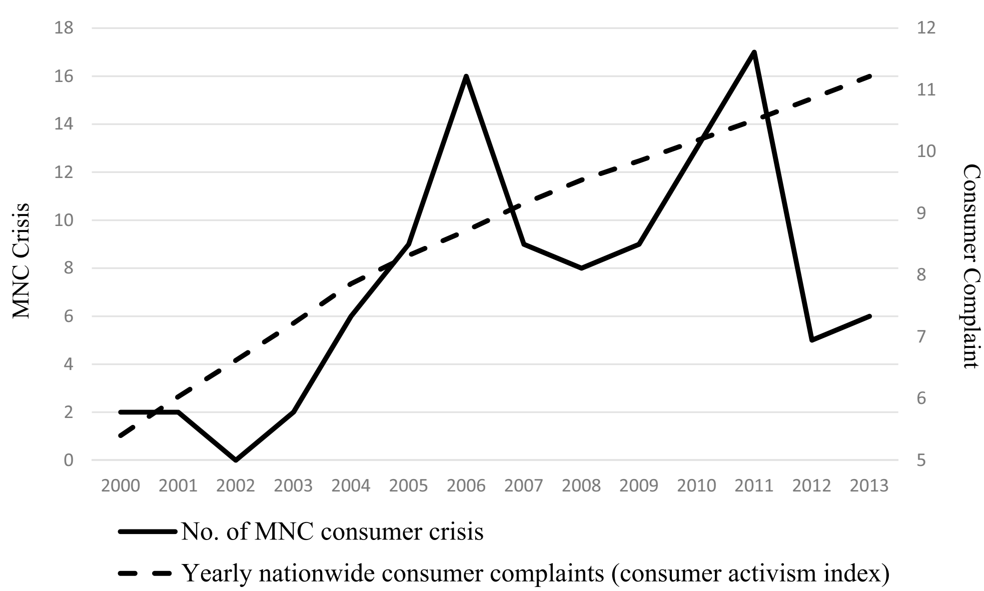

Fig. 1 Nationwide consumer complaint and MNC consumer crisis trends 2000–2013

The stakeholder environment composed of employees, suppliers, and dealers overlaps with the network of primary stakeholders who engage in economic transactions with the business (Carroll, 1989). This environment, however, excludes primary stakeholders who do not directly influence consumers' experience of products and services, such as shareholders and creditors. This environment also excludes secondary stakeholders such as governments, communities, nonprofit organizations, or the mass media (Carroll, 1989), who do not directly impact the quality of MNC products and services. In summary, coevolution in this paper describes the mutual influence between MNCs and a product- and service-related stakeholder environment.

Attention-Based Constraint to MNC Coevolution

Coevolution is vital for MNCs to "cope with the uncertainties of a dynamic physical and human environment" in foreign markets (Cantwell et al., 2010: 579). While influencing strategies and motivating adaptation, such uncertainties call for firms to experiment with and catalyze changes that may reshape the business environment. An MNC is better positioned to foster change and innovation in the external environment when it can search for and enact alternative paths and strategies (Cantwell et al., 2010). This variety-generating or "exploration adaptation" capability (Lewin et al., 1999: 537) is critical to firm-environment coevolution. However, this capability is subject to the constraint of the resource, the strategic intent, and the cognitive capacity in an organization (Lewin et al., 1999). Extant research reveals how and why coevolution happens (Ozawa, 2005; Spencer, 2008; Tan & Tan, 2005), but there is little knowledge about how internal constraints hinder firms' creation of strategic variances and disenable their coevolution process.

This paper explores a cognitive constraint to MNC coevolution. The tension between different foci of attention reduces MNCs' capability to create variances in strategic choices to react to and influence environmental changes. We focus on different stakeholder orientations to define MNCs' alternative foci of attention. MNCs' stakeholder orientation reflects business leaders' primary objective of advancing the interests of shareholders or a broader range of stakeholders (Berman et al., 1999; Crilly, 2011). It also demonstrates the firm-centric or extended "enterprise logic" in an organization that guides attention to shareholders or non-sharing stakeholders (Crilly & Sloan, 2012: 1175). This paper draws on and extends this insight to distinguish a firm's expansion attention and stakeholder attention. Expansion attention focuses on the organizational agenda that pursues the local operations expansion and business growth, highlighting stakeholders and stakeholder attributes that directly affect this agenda. Consumption behavior, labor costs, or suppliers' delivery speed are examples of information associated with expansion attention. In contrast, stakeholder attention focuses on stakeholders' social and ethical needs, expectations, and practices. The links between these stakeholder attributes and operations expansion are less straightforward. However, they influence the ethical risk in stakeholder behavior that may, in turn, affect products and services and consumer satisfaction. For example, undue purchasing policies and poorly enforced ethical standards may incentivize suppliers to take shortcuts that compromise product quality. We discuss the possible tension between expansion attention and stakeholder attention through the theoretical lens of the attention-based view and bounded rationality studies.

Ocasio (1997) posits three interrelated principles to elaborate on how organizations allocate attention. The *focus of attention* principle asserts that the selective nature of attention sets a hardly impenetrable boundary between attended and ignored issues. This principle notes the high cost to shift among different foci of attention. The *situated attention* principle asserts that the focus of attention and related behavior is situated and reinforced in environmental and organizational contexts such as an organization's procedural and communication channels. The *structural distribution of attention* principle asserts that attention structures regulate and control the distribution of attention in these channels and generate values that order different attention foci' legitimacy, importance, and relevance.

While attention principles shape the boundary between different foci of attention, bounded rationality explains organizational members' tendency to behave within the established boundary. Bounded rationality suggests that decision-makers in HQs and subsidiaries suffer from incomplete information and a limited information-processing capacity (March & Simon, 1958). The theory also indicates that decision-makers prioritize different facets of information and give different interpretations of the same information (Verbeke & Yuan, 2005). Bounded rationality, therefore, hinders managers from adjusting and reconciling divergent foci of attention.

We build on these insights to theorize that the limited cognitive capacity of HQ and subsidiary managers, the path dependence effect of organizational attention, and the expansion attention's tendency to control the focus of attention in foreign subsidiaries constitute the sources of MNCs' cognitive constraint to coevolution. Limited cognitive capacity motivates decision-makers to pursue efficiency by narrowing their scope of attention. This process eliminates some of the available attention decision-makers might otherwise allocate to accommodating new information. Attention to the foreign market takes up much of managers' time and energy (Bouquet & Birkinshaw, 2008). The *focus of attention* principle suggests that once an MNC orients its attention to pursuing rapid market expansion, shifting attention to complex stakeholder dynamics will pose a cognitive challenge.

Compounding limited cognitive capacity, MNCs' foci of attention tend to be path-dependent. MNCs' international expansion and operation often replicate their early economic success in the global market (Contractor, 2007). This path dependence enables managers to expedite decision-making. However, it can also suppress managers' attention scope, constraining them from acquiring information that does not match prior learning (Thomas et al., 2007). Expansion attention may generate short-term successes that reinforce this narrowed focus of attention. The resulting inertia against the shift of the focus of attention may hinder MNCs from scanning, assimilating, and using new information as it becomes relevant.

The path-dependence effect is rooted both in attention principles and bounded rationality. The tenets of *situated attention* and the *structural distribution of attention* suggest that attention structures, such as rules of the game, resources, structural positions, and type of players, provide concrete and structured incentives for firms to align organizational members around specific foci of attention (Ocasio, 1997). Attention structures are "the social, economic, and cultural structures that govern the allocation of time, effort, and attentional focus of organizational decision-makers in their decision-making activities" (Ocasio, 1997: 195). Attention structures define the legitimacy, importance, and relevance of information that decision-makers rely on to allocate attention. On the other hand, bounded rationality motivates decision-makers to follow the established focus of attention to selectively collect and interpret social, economic, and cultural information, maintaining the current scope of attention structures. Thus, MNCs who follow attention structures associated with expansion-related (rather than ethics-related) stakeholder attributes tend to keep drawing on these structures to interpret information and marginalize alternative stakeholder attributes.

For example, Dell transformed its business model in China in the early 2000s. The firm shifted from a direct sales model to a quota sales model that allowed the firm to make use of domestic retailers for market expansion. The new model encouraged salespeople to prioritize sales higher than consumer experiences, and this change was at odds with the consumers' rising expectations of service quality. Dell soon received a series of lawsuits from a fast-growing online anti-Dell consumer alliance, which led to sluggish growth. The decision to adopt a quota sales model stemmed from a focus on the firm’s slack resources to rapidly build an extensive retailer network (i.e., resources) and stakeholder attributes such as Chinese consumers' reluctance to buy computers over phone calls (i.e., players). These attention structures provided few incentives for Dell to expand attention to the risk that the new business model could not meet changing consumer expectations.

The cognitive source of the tension between MNCs' expansion attention and stakeholder attention stems partly from the expansion attention’s tendency to control the focus of attention in foreign subsidiaries. This source originates from bounded rationality that describes information selection and interpretation divergence between HQs and subsidiaries (Verbeke & Yuan, 2005). Attention principles specify and reinforce this type of bounded rationality. According to the *structural distribution of attention,* the normative frames carried by attention structures and the material resources deployed throughout an organization regulate the distribution of attentional foci across different parts of the organization (Ocasio, 1997). Managers in HQs and subsidiaries imbed different values and interests in their host and home environments (Verbeke & Yuan, 2005) and their positions in the MNC (Birkinshaw et al., 2000). Thus, they pay attention to different aspects of local information and may interpret the same information from their different understandings of the firm's appropriate model of the local operation.

HQs align the global and local foci of attention to ensure focused resource allocation (Verbeke & Yuan, 2005) and control local employees' opportunistic behavior (O’Donnell, 2000). Expansion attention serves shareholders and thus exerts substantial cognitive control over organizational members (Crilly & Sloan, 2012). It acts as a controlling mechanism for aligning global and local attention and agendas (Bjorkman et al., 2004). The top-down pressure on attention alignment incentivizes subsidiary managers to act within global HQs' scope of expansion attention instead of paying attention to non-shareholding stakeholders' social and ethical issues. Crilly (2011) found that subsidiary managers who perceive the global HQ's strong attention to growth and earnings tend to focus on internal stakeholders such as shareholders. In summary, attention principles and bounded rationality shape a tension between an MNC's expansion attention and managers' cognitive capacity to understand and influence stakeholders’ ethical behaviors and hence the stakeholder environment.

Hypotheses

We center around the mediation effect of stakeholder attention on the relationship between expansion attention and the consumer crisis risk to explain the attention-based constraint to coevolution. There are different approaches to structure hypotheses to present a mediation effect (e.g., Battilana et al., 2015; Currim et al., 2012; Zhu et al., 2013). How to structure hypotheses to a large extent depends on the theoretical focus. Our approach aligns with Battilana and colleagues’ work (2015), intending to demonstrate that the tension between expansion attention and stakeholder attention hinders coevolution. We first hypothesize the main effect that expansion attention (the independent variable) increases the consumer crisis risk (the dependent variable). This hypothesis suggests MNCs' failure to adapt to the rising consumer activism in China when they focus on local expansion. Next, we hypothesize that stakeholder attention (the mediator) reduces the crisis risk, suggesting that MNCs can better adapt to and influence the stakeholder environment by improving stakeholders' ethical behaviors. Finally, we hypothesize that expansion attention reduces stakeholder attention and thus weakens MNCs' capability to adapt to and influence the environment. These hypotheses suggest that stakeholder attention at least partially mediates the effect of expansion attention on the consumer crisis risk. We then test to approve stakeholder attention's partial or complete mediation effect.

Expansion Attention Increases MNCs' Consumer Crisis Risk

The stakeholder environment in China features a growing tension between consumer activism and the ethical issue of local employees, suppliers, and dealers. MNCs who pay insufficient attention to stakeholders' unethical behaviors should be vulnerable to environmental influence and risk experiencing consumer crises in this environment. The principles of situated attention and structural distribution of attention suggest that a firm's strong expansion plan and related organizational arrangements select, prioritize, and reinforce the decision maker's attention to this plan. Due to bounded rationality, strong attention to rapid expansion occupies the decision makers' limited information-processing abilities, making it cognitively challenging to manage unfamiliar changes in the stakeholder environment. MNCs' consumer crisis risk increases when MNCs' focus on local expansion takes up the bandwidth of their attention, making them less attentive to ethical risk in the stakeholder environment due to stakeholders' unfulfilled social needs and underdeveloped ethical practices. In our interviews, senior managers in all firms reported that rapid expansion could make firms overlook the ethical risk in stakeholder behavior and requests that may compromise product and service quality and potentially lead to consumer challenges (see Table 1). Based on the above discussion, this paper hypothesizes that expansion attention increases MNCs' consumer crisis risk.

Hypothesis 1: An MNC's attention to local expansion is positively associated with the MNC's risk of experiencing a consumer crisis.

Stakeholder Attention Reduces MNCs' Consumer Crisis Risk

Continuously engaging with stakeholders to enhance their social welfare and improve their ethical behavior can potentially lower the consumer crisis risk and reduce the negative impact of environmental changes on business operations. Instead of being reactive to consumer challenges, continuous stakeholder attention requires a firm to develop organizational systems (e.g., communication and governance systems) to prioritize actions that attend to stakeholders' social and ethical expectations and practices. These organizational systems prevent managers from predominantly paying attention to shareholder interests and growth agendas. This arrangement releases cognitive resources for managers to understand and deal with the ethical risk in stakeholder behavior and identify opportunities to improve the ethical behavior of stakeholders. Continuous stakeholder attention thus enables MNCs to break established behavior norms in the stakeholder environment and address the source of consumer complaints rooted in stakeholders' unethical behaviors.

Stakeholder attention also potentially reduces the consumer crisis risk by shaping consumers' favorable perception of a firm's stakeholder orientation. Crilly and Sloan (2012) show that firms that emphasize the interests of a broader set of stakeholders perform better in corporate social responsibility (CSR) than those focusing mainly on shareholders. CSR performance is a primary message that consumers use to assess a firm's possibility of pursuing stakeholders' interests versus seeking self-interest at their expense, namely its altruistic orientation (Godfrey et al., 2009). Perceptions of altruistic orientation alleviate consumer reactions to firm misdeeds. For example, consumers become less hostile to a firm's misdeeds when it has higher CSR performance than its competitors (Godfrey et al., 2009). To sum up, we hypothesize that stakeholder attention reduces the crisis risk.

Hypothesis 2: An MNC's attention to employees, suppliers, and dealers' social welfare and ethical behavior is negatively associated with the MNC's risk of experiencing a consumer crisis.

Expansion Attention Reduces Stakeholder Attention

We argue that strong expansion attention can reduce stakeholder attention, causing an attention-based constraint to MNCs' capability of influencing and hence coevolving with the stakeholder environment. First, the limited cognitive capacity contributes to this tension in the attention. MNCs that focus attention on rapid local expansion may suffer from weak stakeholder attention because of "time compression diseconomies" (Dierickx & Cool, 1989). MNCs seeking to

Table 1 Qualitative evidence supporting the tenison between expansion attention and stakeholder attention

Expansion attention reduces the attention to the ethical risk in manager/employee/contract labor behavior	Firm A: "There is a risk of front-line employees' under-training if the company grows fast…If you aggressively expand, you are likely to do whatever you need to promote sales." Firm C: "Before, large companies did maintenance on their own. Now, they want to outsource this service to save costs. [Using contract labor,] they do not need to take responsibility if an accident happens…Fast expansion pressures a company to save costs in this way." Firm D: "We plan to double our revenue from two billion euros to four billion, and this is aggressive…We decided we could not afford following global procedures [to take a long time to examine why a product problem happened]…We have the same issue as many other MNCs have—that the global HQ worries about the risk of growing fast. There might be a risk of losing global standards on product quality, service quality, etc."
Expansion attention reduces the attention to the ethical risk in supplier behavior	Firm B: "Fast expansion requires us to be more flexible [on quality requirements] about what we offer to our clients…We are loosening the global HQ's standard on raw materials, and we are making a compromise to local suppliers." Firm E: "When we enter the e-business sector, many small clients [suppliers] do not put product quality and durability first…Our fast growth requires us to work with them."
Expansion attention reduces the attention to the ethical risk in dealers' requests	Firm B: "Having a China HQ is likely to lead to more aggressive growth…The global HQ understands there is a quality risk if we adapt to our clients' [dealers'] demands for [product modification] speed…We currently focus more on speed than quality. We put it in a way [to the global HQ] that you have to accept it if you want to keep the production ongoing." Firm C: "The concerns [over the quality-flexibility balance] are still there…We changed our Great China CEO, and he believes that the China business deserves faster growth…Our global HQ requires lengthy testing and data analysis to change a product and ensure quality. This process can take 1–2 years. But Chinese clients [dealers] may just give you one month…We have to adapt to our client's demands."

accelerate their local expansion may be less likely to pay adequate attention to broader stakeholder interests than those growing moderately. Competence building for stakeholder management is a relatively tacit goal, unlike cost and tax savings, and is more subject to time compression diseconomies (Vermeulen & Barkema, 2002). Thus, in the case of fast expansion, managers' attention to stakeholders' social welfare and ethical behavior is likely to entail a cognitive load that exceeds their attention capacity (Laamanen et al., 2018).

Second, the path-dependence effect provides a distinct source of tension in the attention. In the early stage of entry into China (e.g., the 1980s and 1990s), MNCs primarily worked with resourceful political and business parties to overcome institutional voids and pursue business growth (Chen et al., 2009). The weak regulatory system and low social awareness of consumer rights at that time (Overby, 2006) added little pressure on them to attend to the ethical issue of local stakeholders that may violate consumer rights. Established expansion attention enables MNCs to accumulate economic successes with insufficient stakeholder attention in this environment. It incurs inertia that makes it difficult to shift attention to accruing knowledge about stakeholder changes. It can be even more challenging to divert attention and overcome the path-dependent effect when an MNC focuses on rapid local expansion.

Third, global HQs' expansion attention may motivate subsidiary managers to compromise stakeholder attention in pursuit of fast expansion. The shareholder-centric attention in a firm exerts substantial cognitive control over organizational members and constrains the differentiation of attention to the interests of multiple stakeholders (Crilly & Sloan, 2012). Thus, subsidiary managers who perceive global HQs' strong attention to growth and earnings may be less likely to engage with stakeholders beyond shareholders (Crilly, 2011). They may downplay stakeholder attention because addressing stakeholders' ethical issues rooted in the local business norm may limit business growth. Competitors can leverage stakeholders' ethically controversial practices to gain business advantages, and subsidiaries that pursue tight global ethical standards may reduce local business opportunities (Tan & Wang, 2011). Meanwhile, global HQs often fail to supervise local managers regarding ethical codes of conduct (Tan, 2009). These factors may encourage subsidiary managers to cater to rather than spend time addressing ethically controversial stakeholder behavior. Our interviews provide qualitative support to this point. As Table 1 shows, managers in all firms recognized that failing to follow ethically controversial practices in the industry may limit business growth, which urged them to conform to rather than change these practices. Summarizing the above arguments, we hypothesize that expansion attention reduces stakeholder attention.

Hypothesis 3: An MNC's attention to local expansion is negatively associated with the MNC's attention to employees, suppliers, and dealers' social welfare and ethical behavior.

Data and Methods

Sample and Data

We chose the sample firms by combining a list of *Fortune* Global 500 corporations and their foreign direct investments in China as documented by China's Ministry of Commerce (MOFCOM) in 2012. Based on the Global Industry Classification Standard system, we focused on MNCs in eleven consumer goods and services industries. The industries are automobiles, beverages, distribution, food products, health care providers and services, household products, multiline retail, pharmaceuticals, personal products, textiles, apparel, luxury goods, and electronic equipment, instruments, and components. Firms in these industries are deeply involved in the mass market, generate a broad social impact, and are subject to local cultural and market factors. We built a representative dataset of publicly accessible financial information for their operations in China for foreign MNCs large enough to invite scrutiny by the general public and mass media. ORIANA helped identify the organizational and financial information of MNCs' subsidiaries. We referred to Bloomberg News and the U.S. Securities and Exchange Commission to resolve inconsistencies or missing information in the data set. COMPUSTAT provided financial information for parent firms.

The final dataset includes 68 MNCs from 13 countries, covering their operations and consumer crises in China from 2000 to 2013. This period captured changes in the stakeholder environment and the variance of MNC expansions following China's accession to the World Trade Organization on December 11, 2000. To complement our quantitative analysis, we also interviewed senior managers of five large foreign MNCs in China. We maintained the diversity in these firms' industries, countries of origin, and the nature of clients that might influence interviewees' perception of the local growth strategy and the stakeholder environment. Table 2 summarizes the interviewees' background.

Dependent Variable

Consumer Crisis

We developed a dummy variable indicating the occurrence of the consumer crisis in a given year and a count variable showing the number of crises in a year for each MNC. In our robustness test, the results between the two dependent variables were consistent. We only reported the results for the dummy variable as crisis occurrence allows more straightforward interpretations. We identified the crisis from three sources: (1) Factiva, a database that documents newspaper articles; (2) articles found via Google and Baidu, the major Chinese search engine; and (3) special scandal sections on *sina.com.cn* and *people.com*, which are the two major news content providers with full-time staff members who collect scandal-related articles from the electronic media throughout the country every day. Firm documents and external reports served as complementary materials.

The research team searched more than 2000 articles for accounts of consumer crisis events over the 2000–2013 timeframe, using exhaustive sets of keywords, including firm name, various Chinese expressions for "consumer," and the terms indicating a crisis risk. We developed four directories of keywords that imply a crisis risk: nine keywords for firm

Table 2 Interviewee background

	Firm A	Firm B	Firm C	Firm D	Firm E
Interviewee	China brand general manager	China marketing director	China human resources director	China headquarter president	China headquarter president
Year of Entering China	1992	2000	1995	1963	1995
Client	Consumer	Business	Business and consumer	Business	Business and consumer
Consumer Crisis	Yes	No	Yes	No	Yes
Industry	Cosmetics	Steel product	Elevator and auto parts	Chemical product	Product packaging
Country	Korea	Norway	Germany	Netherlands	United States

misdeeds (e.g., *fraud, harm*), eight keywords for firm outcomes (e.g., *penalty, recall*), nine keywords for consumer reactions (e.g., *accuse*, *protest*), and seven general negative keywords (e.g., *scandal*, *conflict*).

We used the following criteria to identify a consumer crisis. First, a challenge (e.g., critique, protest, lawsuit) must concern issues that violate consumer rights. We identified three broad issues: product quality and safety problems, marketing and promotion activity frauds, and internal management faults (e.g., pricing error, product labeling error, the violation of the internal sanitation policy, poor service quality). Second, the event must be reported through formal and influential public media (official or private) rather than informal channels, such as posting a bulletin board, blog, or other social media channels. Third, the challenge must damage business performance. Information about damages emerges from a firm's responses (e.g., compensation, product recall), an external authority's actions (government penalization), or a third party's (e.g., analyst) estimation of financial losses.

The research team attended a training session and did a pilot analysis of 20 firms. The team discussed each firm and dealt with discrepancies. Each researcher then worked on different parts of the sample independently and then exchanged firms to recheck the results and evidence found by other researchers. This process resulted in 104 unique consumer crises for 75 firms during 2000–2013. The final data set includes 92 crises for 68 firms after excluding missing data on control variables. Table 3 describes the structure of the 104 crisis events.

Independent Variables

Expansion Attention

To measure expansion attention, we use local expansion speed, namely how fast an MNC expands in a market during a specific period (Wagner, 2004). Following prior studies (Vermeulen & Barkema, 2002), we calculated local expansion speed as the number of subsidiaries divided by the number of years since the firm's first expansion in China. We added one to this number and then did a logarithmic transformation to reduce data skewness.

Stakeholder Attention

We follow the conventional approach of counting textual references to the target of attention as objective evidence of attention. As a measure of the level of attention, existing studies counted the number of sentences in related documents referring to the target of attention, such as different

Table 3 Structure of MNCs' Consumer Crisis in China, 2000–2013

Crisis frequency	
Number of MNCs encountering at least one crisis	42 (56% of all sample firms)
Number of industries encountering a crisis	11 (79% of all industries)
Number of home countries for MNCs encountering a crisis	11 (79% of all countries)
Crisis area	
Product quality and safety problems	86%
Marketing and promotion activity frauds	9%
Internal management fault	5%
Crisis outcome[a]	
Compensation	54%
Administrative/legal penalty	31%
Estimated sales drop	25%
Product recall	9%
Voluntary removal from the shelf/product return	2%
Store closing	1%
Consumer crisis attributed to stakeholder	
Employee. Example: Carrefour and Walmart's store managers tempered the expiration dates of goods and sold fake products	14%
Supplier. Example: Royal Phillips' suppliers used halogen powder as a low-quality alternative to a rare-earth powder, undermining the quality of fluorescent lamps	16%
Dealer. Example: Sub-quality post-sales services of Dell's dealers fueled an online anti-Dell consumer alliance	8%
Consumer	0
Community	0
Natural environment	0

[a]The aggregate percentage of the crisis outcomes is more than 100 because one crisis can lead to multiple outcomes

stakeholders (D'Aveni & MacMillan, 1990) or foreign subsidiaries (Ambos & Birkinshaw, 2010). In line with our conceptualization of the stakeholder environment, the target of stakeholder attention in this research includes employees, suppliers, and dealers. MNCs' practices targeting these stakeholders describe activities, policies, or systems to influence them, such as advancing their welfare or changing their behavior. We counted unique practices targeting these stakeholders to measure a firm's stakeholder attention. Table 4 shows an example of such practices.

We developed a profile of stakeholder engagement practices from 2000 to 2013 for each firm. We collected data from three sources: CSR-related firm reports (corporate citizenship report, sustainability report, CSR report, etc.), official websites, and mass media reports (Factiva and the internet). We found an exhaustive set of publicly available firm reports for each firm by searching the internet and major CSR report datasets (e.g., www.csr-china.net, www.rksratings.com). Firm reports include Chinese reports and global reports that cover China-specific information. In Factiva, we used major Chinese and international media outlets to identify sample firms' stakeholder-related activities, policies, and systems in China, including SINA, SOHU, People Daily, Forbes, Fortune, Business Week, the Wall Street Journal, The New York Times, and Economist.

Table 4 Structure of MNCs' stakeholder engagement in China

Stakeholder type	Stakeholder engagement type	Example of stakeholder engagement practice
Employee	Improving employee welfare	"The 2000 Nestlé Nutrition training program is mandatory. All Nestlé employees must participate, including employees from joint ventures. This training program teaches employees the right nutrition skills and knowledge so that employees can make wise choices for themselves and their families." (Nestlé Sustainability Report 2013)
	Improving employees' ethical behavior	"To improve managers' professional capability and professional ethics, the company provided a total of 187 training programs in 2012, including 'Dongben Classroom,' 'Preservation Training,' and 'Language Training'." (Honda China CSR Report 2012)
Supplier	Improving suppliers' legal compliance	"Ford China provided training to the top management of suppliers in 2004…In situations of poverty where suppliers have difficulty meeting legal requirements, we worked with them to ensure that their activities followed the legal framework." (Ford China CSR Report 2003–2005)
	Improving suppliers' ethical behavior	"The procurement and supply chain teams jointly organized a road safety and responsible procurement training event in November. 39 people from 22 suppliers participated in the training." (Nestlé Sustainability Report 2013)
Dealer	Improving dealers' consumer service capability	"We provided consumer satisfaction training, video demonstration, and on-site guidance to all key positions in the dealer system, including general managers, salespersons, post-sales managers, and customer service staff." (Nissan China CSR Report 2013)
	Improving dealers' ethical behavior	"Ford Motor China brand dealers started following Quality Care standards in 2002 to improve service levels and professional ethics." (Ford China CSR Report 2003–2005)
Consumer	Satisfying consumer demands	"In 2009, Nestlé relaunched a plan to develop nutrition-enhanced milk powder products…aimed at solving the problem of major micronutrient (such as calcium, iron, vitamin A and D) deficiency." (Nestlé Sustainability Report 2012)
	Protecting consumer rights	"We developed specific principles on responsible advertising and communication with children…[For example] no advertising or marketing activities are allowed for children under six years of age." (Nestlé Sustainability Report 2012)
Community	Improving community members' social welfare	"We continue to pay attention to education by donating funds to establish the Yinlu Education Scholarship and supporting the Hope Primary School." (Nestlé Sustainability Report 2013)
Natural environment	Saving energy	"Sewage treatment and recycling are used to provide make-up water for cooling towers, saving 2% of factory water consumption." (Nissan China CSR Report, 2012)
	Protecting the natural environment	"Siemens, Zhejiang TV Station, and Hangzhou Civilization Office jointly launched the Campaign for Boycotting White Pollution in Hangzhou." (Siemens China Corporate Citizen Report 2008)

As Table 4 summarizes, MNCs adopted eleven practices that target six stakeholders, including employees, suppliers, dealers, consumers, communities, and the natural environment. We analyzed 3880 unique practices from firm reports, 2039 practices from official websites, and 1638 practices from mass media reports. We focused on employees, suppliers, and dealers to develop indicators of stakeholder attention and study MNC coevolution for two reasons. First, the action of these stakeholders is a primary source of product and service issues and consumer complaints. As Table 3 shows, the unethical behavior of these stakeholders accounts for 38% of consumer crises in our dataset. This is a conservative estimate because firms usually do not publicly disclose investigation results on local stakeholders' role in product and service problems. The lack of attention to these stakeholders' unethical behavior should increase MNCs' consumer crisis risk. Meanwhile, practices targeting employees, suppliers, and dealers, as Table 4 shows, tend to influence their ethical behavior, which is different from practices targeting other stakeholders. Therefore, MNCs' attention to and influence on these stakeholders indicate MNCs' coevolution with the stakeholder environment.

Second, a deeper analysis of the substance of stakeholder engagement suggests that the level of tension between expansion attention and stakeholder attention may vary by stakeholder type. Practices targeting consumers focus on more effectively meeting consumer demands through managerial (e.g., developing the marketing policy) and functional (e.g., R&D) activities. Regarding communities, MNCs conduct philanthropy to improve community members' welfare. As to the natural environment, MNCs depend on internal activities (e.g., energy conservation) and external partnerships (e.g., participating in government projects) to reduce costs and protect the natural environment. These practices may directly strengthen profitability and obtain approval and resources from consumers, governments, or other resourceful stakeholders.

In contrast, practices targeting employees, suppliers, and dealers try to change these stakeholders' behaviors. Behavior change may take longer to accomplish and translate into sales and social support. Efforts to change stakeholders' ethically controversial behavior may even limit business growth in the short term if this behavior is entrenched in the business norm. For example, quotes in Table 1 suggest that following ethically controversial behavior in the industry could facilitate business growth. These observations suggest that MNCs' business growth may be less aligned with attention to the ethical behavior of employees, suppliers, and dealers than other stakeholders. Thus, we expect the tension in the attention to be more relevant in the case of employees, suppliers, and dealers.

We realize that expansion attention should mainly reduce attention to employees, suppliers, and dealers, while this effect on other stakeholders should be weaker. MNCs can pursue rapid local expansion while extensively engaging with other stakeholders, for example, through community and environmental projects and heavy investment in developing new products to meet consumer demands. Despite the high-level engagement with other stakeholders, these MNCs may still suffer from the negative impact of expansion attention on employees, suppliers, and dealers and encounter recurrent consumer crises. The distribution of attention among non-shareholding stakeholders and the level of attention should matter to the mutual influence between MNCs and the stakeholder environment. Therefore, we used the relative number of unique practices targeting employees, suppliers, and dealers to measure stakeholder attention and predict the tension in the attention. We calculated "stakeholder attention" by dividing the number of unique practices targeting employees, suppliers, and dealers by the total unique practices of all six types of stakeholders. We scaled this ratio score by 100 and measured it as a percentage to facilitate the demonstration of results. Then, we averaged the scores of current and previous years and used the average score to predict the consumer crisis risk in the following year. Compared to the score in a particular year, the average score reflects an MNC's continuous level of stakeholder attention by the end of the year. We used a one-year lag to reflect the delay in stakeholder engagement practices influencing stakeholder behavior.

Control Variables

Local and global stakeholders are more likely to scrutinize large and profitable firms (Rowley & Moldoveanu, 2003). Hence, we controlled for both parent firm size and performance and the size and performance of their subsidiaries in China. The logged total assets captured firm size, and the return on assets measured firm performance. MNCs with different levels of local operation experiences may have different levels of stakeholder attention and varying risk of experiencing a consumer crisis. We thus controlled for the *length of time in China*, measured as the number of years since a firm launched its first subsidiary in China. We included one-year lagged *previous stakeholder attention* and *previous crisis* to control for internal factors that may continuously drive a firm's stakeholder attention or crisis occurrence. We also included *industry dummies* and *year dummies* to control for the industry- and year-specific effects.

We used the *Chinese CSR report* and *total stakeholder engagement* to exclude the effect of a firm's attention to overall non-shareholding stakeholders. *Chinese CSR report* indicates that a firm released a Chinese CSR-related report in a given year. *Total stakeholder engagement* indicates the number of unique practices targeting all six types of stakeholders in a year. We considered regional influences on firms' stakeholder attention and their crisis risk, given that subnational region in China impacts foreign firms' strategic decisions and outcomes (Ma et al., 2013). We controlled *government intervention* and *consumer activism* since they are particularly relevant to stakeholder attention and the crisis risk. The Chinese government is likely to selectively inspect firm behavior and enforce regulations (Chen et al., 2011), which may constrain or facilitate stakeholder attention and consumer challenges. We followed two steps to measure government intervention. First, we obtained a regional-level government intervention index from the China Marketization Index (Fan et al., 2011). This indicator relied on survey data on the proportion of working time that the top management team of each firm spends on dealing with government officials. Second, we calculated a firm-level government intervention index by summing up the government intervention score in different regions (provinces or municipal cities) weighted by the firm's regional expansion weight—the number of subsidiaries in a particular region divided by the total number of subsidiaries in all regions.

We controlled consumer activism because frequent customer complaints may motivate stakeholder attention and increase the consumer crisis risk. We first obtained the regional-level index of consumer rights protection (Fan et al., 2011)—the number of consumer complaints in each region, divided by regional gross domestic product (GDP) to control economic size on consumer behavior. Then we summed up the GDP-adjusted consumer activism score in different regions, weighted by a firm's regional expansion weight, to obtain a firm-level consumer activism index.

Cross-country differences may also influence consumer challenges and an MNC's stakeholder attention. We controlled for *cultural distance*, *administrative distance*, and *geographic distance* between an MNC's home country and China. Utilizing Hofstede's (2003) data, we calculated the cultural distance index following Kogut and Singh's (1988) method. The administrative distance was measured as the difference in the Fraser Institute's Economic Freedom Index values for the MNC's home country and China (Ma et al., 2013). Geographic distance was measured as the average of Beijing's and Shanghai's geographic proximity to the MNC's global HQ. Given the high correlation between cultural and geographic distance, we combined these two factors by averaging their standardized values to represent *cultural distance and geographic distance*.

Analysis

We adopted an event history analysis, also known as survival analysis, to predict the hazard of crisis occurrence and the generalized estimating equation (GEE) to predict stakeholder attention. Both methods have been frequently used in previous studies using panel data (e.g., Luo et al., 2020; Zhao, et al., 2014a). In the event hisotry analysis, we employed the continuous-time method as a crisis can occur during the observation period. We applied the exponential model, assuming that the hazard rate is constant over time, and used maximum likelihood estimation. The robustness tests are consistent across regressions using Logit, discrete-time survival models, and Cox models. In the GEE analysis, we specified a gaussian distribution, identity link, and exchangeable correlation structure.

Since we focus on large firms to collect data, our sample firms are not randomly selected. To address the possible sample selection bias, we utilized two-step Heckman selection models to assess the generalizability of findings to relatively smaller firms. We estimated a probit model to predict the likelihood of a random firm selected into our sample in the first stage. We used the entire sample downloaded from *Compustat Global* and *Compustat North America* (N = 427,326 excluding missing values) from 2000 to 2013 and included total revenue as the exclusion restriction. We identified total revenue as the exclusion restriction because an MNC with a higher revenue is more likely to enter China and be included in Fortune Global 500 corporations, ranked based on revenue. Meanwhile, there is no direct evidence suggesting that total revenue will avoid consumer crises or promote stakeholder attention. We did several tests to assess the strength of exclusion restriction following the recommendations of prior studies (e.g., Certo et al., 2016; Hill et al., 2021). We then calculated the non-selection hazard (inverse mills ratio, IMR) and controlled for this variable in the second-stage survival or GEE models. The IMR-controlled models produce results consistent with findings without controlling for this variable.

Results

Table 5 presents descriptive statistics and correlations. Most variable pairs exhibit a correlation of less than 0.5. We ran ordinary least squares (OLS) regression models to inspect possible multicollinearity that might confound our results. All VIF values based on these OLS models were less than 2.01, which is lower than the cutoff value (VIF < 10) suggested by Stevens (2009). We also employed several strategies (e.g., multiple specifications with and without each variable correlated more than 0.3 with other variables) as Kalnins (2018) recommended. The results are all consistent with those reported here. Thus, we conclude that multicollinearity concerns are limited.

The results in Table 6 show the impacts on the consumer crisis risk (Models 1–4) and stakeholder attention (Models 5–6). Model 1 in Table 6 is the baseline model that includes controls only. Model 2 shows that the effect of expansion attention on consumer crisis is positive and significant

Table 5 Descriptive statistics and correlations

Variables	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1. Crisis	1															
2. Expansion attention	0.14	1														
3. Stakeholder attention	−0.27	−0.16	1													
4. Operating length in China	0.03	−0.19	−0.04	1												
5. Asset in China	0.06	0.05	−0.06	0.07	1											
6. ROA in China	−0.07	−0.17	0.04	−0.12	−0.13	1										
7. Total asset	0.00	−0.05	0.02	0.07	0.16	−0.14	1									
8. Total ROA	0.03	−0.14	−0.02	−0.08	−0.01	0.40	−0.12	1								
9. Administrative distance	0.02	−0.04	−0.05	−0.27	−0.10	0.08	−0.34	0.13	1							
10. Cultural and geographic distance	0.09	−0.19	−0.08	−0.03	−0.13	0.24	−0.53	0.23	0.36	1						
11. Government intervention	0.04	−0.25	0.00	0.16	0.11	0.26	−0.03	0.17	−0.01	−0.08	1					
12. Consumer activism	0.07	0.08	−0.10	0.36	0.17	0.09	0.09	−0.03	−0.46	−0.19	0.35	1				
13. Chinese CSR report	0.15	0.04	−0.07	0.29	0.06	−0.08	0.04	−0.05	−0.27	−0.08	0.04	0.30	1			
14. Total stakeholder engagement	0.09	−0.01	−0.02	0.19	0.14	−0.08	−0.14	0.10	0.06	−0.02	0.03	0.05	0.28	1		
15. Previous crisis	0.25	0.15	−0.27	0.05	0.11	−0.06	0.01	0.04	−0.03	0.07	0.06	0.11	0.15	0.10	1	
16. Previous stakeholder attention	−0.28	−0.14	0.99	−0.05	−0.05	0.03	0.01	−0.01	−0.03	−0.07	−0.01	−0.10	−0.07	−0.01	−0.27	1
Mean	0.12	0.52	44.40	17.05	14.52	1.98	11.47	0.37	1.64	−0.01	7.51	9.60	0.35	104.30	0.11	44.96
SD	0.32	0.38	22.60	6.94	2.60	4.70	2.23	0.17	0.40	0.91	1.78	1.18	0.48	65.72	0.31	23.40
Min	0	0	0	0	−9.06	−39.79	5.87	0.02	0.83	−2.32	0.1	3.83	0	11	0	0
Max	1	1.75	100	34	19.80	22.07	19.18	1.02	2.81	1.48	12.5	11.44	1	377	1	100

$N = 820$; absolute correlation values larger than 0.07 are significant at 95% level; given the high correlation between previous and current stakeholder attention and the importance of considering previous stakeholder attention when predicting stakeholder attention (in Models 5–7 in Table 6), we also treat stakeholder attention increase (the difference between current and previous stakeholder attention) as the dependent variable, the results are fully consistent

Table 6 Regression results

Variables	Consumer crisis as the DV			Stakeholder attention as the DV		
	Model 1	Model 2 (H1)	Model 3 (H2)	Model 4	Model 5	Model 6 (H3)
Operating length in China	−0.020	−0.006	−0.028	−0.022	0.009	−0.003
	(0.022)	(0.023)	(0.024)	(0.024)	(0.039)	(0.032)
Asset in China	−0.011	−0.032	0.001	−0.025	0.008	0.003
	(0.056)	(0.056)	(0.064)	(0.064)	(0.047)	(0.047)
ROA in China	−0.053*	-0.049^{+}	−0.070*	−0.069*	−0.011	−0.012
	(0.025)	(0.026)	(0.029)	(0.030)	(0.032)	(0.031)
Total asset	−0.052	0.129	0.236	0.455^{+}	0.058	−0.032
	(0.225)	(0.236)	(0.242)	(0.261)	(0.342)	(0.305)
Total ROA	0.635	0.868	0.305	0.483	2.060*	1.451
	(0.801)	(0.844)	(0.854)	(0.899)	(1.015)	(0.939)
Administrative distance	0.344	0.317	0.128	0.017	−0.366	−0.478
	(0.441)	(0.441)	(0.471)	(0.483)	(0.570)	(0.528)
Cultural and geographic distance	0.489**	0.615**	0.388*	0.565**	−0.908*	−0.872**
	(0.181)	(0.188)	(0.193)	(0.201)	(0.370)	(0.301)
Government intervention	0.007	0.174^{+}	−0.023	0.149	−0.027	−0.067
	(0.078)	(0.095)	(0.079)	(0.098)	(0.100)	(0.097)
Consumer activism	0.292	0.183	0.230	0.135	−0.231	−0.183
	(0.179)	(0.193)	(0.181)	(0.190)	(0.156)	(0.156)
Chinese CSR report	0.704**	0.577*	0.683*	0.516^{+}	0.191	0.237
	(0.258)	(0.261)	(0.265)	(0.267)	(0.259)	(0.256)
Total stakeholder engagement	0.003	0.003	0.004^{+}	0.004^{+}	−0.004	−0.005
	(0.002)	(0.002)	(0.002)	(0.002)	(0.004)	(0.003)
Inverse mills ratio	−0.209	0.048	0.422	0.728	0.387	0.201
	(0.427)	(0.443)	(0.456)	(0.482)	(0.675)	(0.596)
Previous crisis	0.765**	0.557*	0.444^{+}	0.280		
	(0.245)	(0.251)	(0.246)	(0.251)		
Previous stakeholder attention					0.894***	0.913***
					(0.009)	(0.007)
Expansion attention		1.315***		1.210***		−1.348**
		(0.334)		(0.357)		(0.477)
Stakeholder attention			−0.038***	−0.038***		
			(0.007)	(0.007)		
Constant	−2.531	−7.705	−11.289	-17.231^{+}	−0.614	2.957
	(7.979)	(8.350)	(8.308)	(8.830)	(11.669)	(10.353)
Year dummies	Included	Included	Included	Included	Included	Included
Industry dummies	Included	Included	Included	Included	Included	Included
Wald Chi-square	95.74***	111.9***	132.5***	144.8***	13,267***	18,567***

N = 820 including 74 panels; standard errors in parentheses

***$p<0.001$; **$p<0.01$; *$p<0.05$; $^{+}p<0.1$

($b=1.315$, $p<0.001$), thus supporting Hypothesis 1. For an average sample firm, expansion attention increases the hazard of crisis by about 98.1% ($=exp[1.315\times0.52]-1$). Model 3 introduces stakeholder attention to predict crisis occurrence. In support of Hypothesis 2, the regression coefficient is negative and significant ($b=-0.038$, $p<0.001$). For an average firm in our sample, stakeholder attention decreases the crisis hazard by about 81.5% ($=\exp[-0.038\times44.40]-1$).

We add models 4–6 to examine the possible mediating effect of stakeholder attention between expansion attention and crisis occurrence. Model 4 shows that expansion attention remains a significant and positive effect on crisis occurrence. Meanwhile, the direct effect of expansion attention on stakeholder attention, as shown in Model 6, is negative and significant ($b = -1.348$, $p < 0.01$), supporting Hypothesis 3. Combining results in Models 2, 3, 4, and 6, we can conclude that stakeholder attention partially mediates the relationship between expansion attention and consumer crisis occurrence. To obtain more conclusive evidence, we conducted a binary mediation test using the lavaan package in R. The results are entirely consistent such that the indirect effect is positive and significant ($b = 0.033$, $p < 0.05$), and the total indirect effect accounts for about 3% of the total effect. We also conducted Sobel, Aorian, and Goodman tests of mediation, which generated significant results ($p < 0.01$). These analyses increase our confidence that expansion attention indirectly contributes to MNCs' consumer crisis risk by reducing their attention to the ethical behavior of local employees, suppliers, and dealers. This finding affirms an attention-based constraint to MNCs' influence on and coevolution with the stakeholder environment in China.

We conducted several robustness tests to increase our confidence in the results (all results are available upon request). First, considering that a firm's expansion attention may be subject to the influence of time, we also measured it in terms of how many subsidiaries a firm launched in the past three years, thus heavily weighting recent expansions. The results show the consistent main effect of expansion attention on consumer crisis, but not for other effects. Second, we used the growth rate of the number of employees as the alternative measure of expansion attention to control for the relative size of subsidiaries. All results are consistent. Therefore, while different measures of expansion attention commonly increase the crisis risk, the mediating role of stakeholder attention comes from an accumulative effect of the continuous increase of subsidiaries or employees. Third, we also used the absolute number of unique practices targeting employees, suppliers, and dealers as the alternative measure of stakeholder attention. The results are entirely consistent with those reported in Table 6. Fourth, we also used crisis frequency, measured as the number of crises in a year for each MNC, as the alternative DV. The results are also entirely consistent. Fifth, expansion attention may be endogenous to other covariates or anticipated crisis risk. We identified three instrumental variables to address a broad range of endogeneity concerns. Industry average expansion speed and home country average expansion speed likely influence the focal firm's expansion speed because MNCs tend to imitate peer firms from the same industry or the same home country to increase the legitimacy of expansion decisions. Moreover, peer firms' expansion speed is unlikely to directly influence the focal firm's crisis. We also followed existing practice in choosing the one-year lag of expansion speed as the third instrument, as a firm's previous expansion experience influences its current expansion. A firm's previous expansion experience is less likely to trigger consumer crises directly, given that the current expansion speed tends to dominate public attention. To inspect the relevance and exogeneity of these instruments, we checked the first-stage F-statistic and Hansen J-statistic. The F-statistic value was 1386.75, which exceeds the conventionally accepted minimum level of 9.08, while the Hansen J-statistic values were 3.126 ($p = 0.210$), suggesting that the instruments were valid. We employed two estimation methods with these three instruments—conventional instrumental variables (IV) estimation and the generalized method of moments (GMM) using the Logit specification—to validate our results. The IV estimation and GMM results are entirely consistent with those in Table 6. Overall, we are confident that endogeneity will not significantly distort our results.

Discussion and Conclusion

MNCs utilize local stakeholders' knowledge and resources to adapt to foreign market characteristics and facilitate sustainable operations (Bartlett & Ghoshal, 1998; Ghemawat, 2007). However, this adaptation strategy does not seem to curb the growth of MNCs' ethical crises in China, driven by various organizational issues and institutional changes (Ahlstrom et al., 2020; Tan, 2009; Zhao et al., 2014b). An important implication is that MNCs need to strategically reposition themselves to adapt to and actively improve the local ethical environment (i.e., coevolve with this environment) to achieve sustainable operations and growth. The literature points out that the capability to identify and execute alternative strategy paths should facilitate this process of MNC coevolution (Cantwell et al., 2010). However, we know little about why MNCs often fail to do so despite its importance. The current study fills this research gap by revealing the form and the ethical outcome of an attention-based cognitive constraint that hinders MNCs' strategic variances and coevolution capability. Our findings also inform approaches to overcoming this cognitive constraint and extend the understanding of international attention's influence on MNCs' foreign operations.

First, this study draws on qualitative and quantitative evidence to identify a tension between MNCs' expansion attention and stakeholder attention, contributing to the understanding of MNCs' consumer crisis risk. This tension limits MNCs' coevolution capability in China. On the one hand, MNCs' attention to fast local expansion reduces their attention to the social welfare and ethical behavior of local employees, suppliers, and dealers. The latter focus of attention can reveal the ethical risk in stakeholder management that may lead to consumer complaints, such as a lack of employee training on consumer-rights protection and resources for lower-tier suppliers to meet product quality standards. As consumer activism grows, this ethical risk will likely cause unexpected consumer crises that fall outside the scope of MNCs' expansion attention. Thus, the tension in the attention hinders MNCs from fending off the disruptive environmental influence. On the other hand, weak stakeholder attention makes MNCs lose sight of the opportunity to improve stakeholders' ethical behaviors, constraining their capability to shape an ethically favorable stakeholder environment.

The direct implication of these findings is a caveat of MNCs' rapid expansion in China. Rapid expansion weakens a firm's capability to expand the focus of attention and adjust strategies to better deal with environmental change, although it may foster short-term business growth. MNCs can strengthen their capability by paying continuous attention to the social welfare and ethical behavior of employees, suppliers, and dealers. The continuous stakeholder attention allows them to renew physical materials (e.g., providing devices to upgrade supplier capability) and social relations (e.g., developing new policies to govern the supplier relationship), which reduces the consumer crisis risk and reshapes the ethical environment to foster operational sustainability.

Second, reconciling expansion attention and stakeholder attention is critical to coevolving with China's changing stakeholder environment. But the attention constraint is persistent due to its roots in the cognitive limitations of managers and structural inertias in the organization. For example, the economic success of growth models and management systems indifferent to local stakeholders' ethical issues increases the cost of refocusing attention on these issues over time. Meanwhile, subsidiary managers' incentives to align with global expectations to enhance legitimacy in the MNC (Kostova & Roth, 2002) discourage their stakeholder attention in the presence of the HQ's expansion expectation. These barriers suggest that incumbent organizational arrangements support and reinforce the focus of attention (Ocasio, 1997). It is necessary to change these arrangements to redistribute the foci of attention in the organization while considering individual managers' cognitive limitations.

Specifically, MNCs need to allocate sufficient attention to local stakeholders' ethical behavior that may affect consumer interests without overstretching managers' cognitive capacity. Building on Crilly and Sloan's (2012) findings, we suggest that managers' autonomous and differentiated engagement with stakeholders can be an effective solution to overcome the cognitive limitation of attending to multiple stakeholders simultaneously. Global HQs can empower subsidiary managers to develop a "cognitive division of labor" (Crilly & Sloan, 2012: 1188). In this case, different managers attend to distinct stakeholders, which ensures a firm's substantive exploration of risks and opportunities in the behavior of a wide range of stakeholders. This approach enables HQs to avoid locking decision-makers in subsidiaries on the track of expansion attention. Meanwhile, subsidiary managers are often unaware of the global HQ's stakeholder policies and practices (Crilly & Sloan, 2012) and limit their decisions to the scope of the HQ's expansion attention. Global HQs need to communicate the significance of stakeholder attention with subsidiary managers by incorporating stakeholder engagement as a critical component in foreign market operations.

Third, our findings add to the international attention literature by affirming that matching the focus of attention with environmental change matters to MNCs' foreign operations. Previous studies stress the performance implications of the level of attention that indicates the time and effort managers invest in understanding foreign markets (Bouquet & Birkinshaw, 2008; Geringer et al., 2000; Vermeulen & Barkema, 2002; Wagner, 2004). At the same time, they treat the focus of attention as given and unproblematic. Recognizing the importance of the level of attention, we argue that the appropriate focus of attention that fits with environmental changes is a critical source of operational sustainability in foreign markets. In an interview with a global auto parts manufacturer, the China human resource director highlighted the global HQ's "strong connection with local operations and frequent communication and better supervision of finance and internal procedures." Despite this high-level attention to local operations, their attention focuses on activities that potentially reduce product quality. The HR director commented, "there is a quality risk if we adapt to our clients' [dealers'] demands for [product modification] speed…We currently focus more on speed than quality." Simply increasing the level of attention does not necessarily mitigate and may even worsen MNCs' risk of encountering ethical challenges in China. The implication here is the significance of the attention-environment fit that allows MNCs to keep their attention compatible and coevolving with the stakeholder environment.

This paper has several limitations that deserve further studies to understand better the processes and outcomes of MNCs' attention-based constraint to coevolution. First, the form of stakeholder attention and the consumer crisis outcome of the tension in the attention can be specific to China. The attention-based constraint may have different implications for MNC operations across contexts, depending on the form and level of ethical challenges in local stakeholder dynamics. Future studies are needed to clarify contextual contingencies and variances of expansion attention's impact on MNCs' ethical challenges. Second, the study does not elaborate on how the attention-based constraint occurs. Thus, we cannot fully explain and verify the mechanisms we used to develop the hypotheses. Future research can gather longitudinal data about how different foci of attention influence MNCs' decision-making processes and examine the dynamics and outcomes of attention allocation within the organization. Third, this study assumes that MNCs' consumer crises due to their attention-based constraint bring about substantive financial and reputational losses. Future studies need to verify this assumption and directly examine the cognitive constraint's strategic value and operational implications for the firm.

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Data availability The authors declare that the data used for this paper are available upon request.

Declarations

Conflict of interest The authors declare that they have no conflict of interest.

Ethical Approval The ethical statements are not applicable for this paper.

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