**Graduate School of Business**

# Exploring the Phenomenon of Corporate Social and Environmental Reporting in China

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# DECLARATION

To the best of my knowledge and belief, this thesis contains no material previously published by any other person except where due acknowledgement has been made.

This thesis contains no material which has been accepted for the award of any other degree or diploma in any university.

Shengli Yu
23 May 2015

# DEDICATION

To my loving family:

My mum: Yan Yu

My dad: Fuyi Yu

My little brother: Tangtang

# ACKNOWLEDGEMENTS

# ABSTRACT

Corporate social and environmental reporting (CSER), as a measure to improve the transparency and accountability of companies to their stakeholders and the society in which they operate, has become a growing trend worldwide. Research on CSER has been primarily conducted in developed countries but, in recent years, it has started to attract more research interest in developing countries. The relatively few empirical studies on CSER in developing countries have followed the format of studies conducted in developed countries, being dominated by the use of quantitative methodology to test the determinants of the level of disclosure and to indirectly infer the motives behind CSER. Meanwhile, few engagement-based studies have directly explored the underlying motivations for and disincentives to CSER from the perspective of reporting entities, especially in China. This neglected research area is actually crucial in understanding the CSER phenomenon.

As one of the first few research initiatives utilising qualitative methodology to explore managerial perceptions of CSER in China, this engagement-based study was motivated by the need to bridge the existing research gap and to provide insights on the exceptional growth of CSER in China in recent years. It seeks to understand companies' CSER decisions by exploring senior managers' perceptions of the enablers for and barriers to companies' adopting CSER in China.

In order to understand the normative assumptions underpinning CSER in China through the eyes of the participants, an inquiry paradigm utilising constructivist ontology and interpretivist epistemology was chosen in this study. Semi-structured in-depth interviews were adopted to explore the perceptions of senior managers from 21 large companies in China. These include Chinese companies listed on the two domestic stock exchanges—the Shanghai Stock Exchange (SSE) and the Shenzhen Stock Exchange (SZSE)—and/or listed on overseas stock exchanges; state-owned enterprises (SOEs); and foreign multinational companies (MNCs) in various industries. To establish both the enablers of and barriers to CSER, the sample included 13 companies that had issued CSR reports (which is the common name for sustainability reports in China) and eight companies that had not yet issued these reports at the time of the interviews. Data collected from the interviews were managed and analysed with NVivo software. The findings were interpreted with a combined consideration of the

real CSER practice in China, the existing literature and three systems-based theoretical perspectives—legitimacy theory, stakeholder theory and institutional theory.

The findings of this study revealed that the main enablers driving CSER in China were regulations and government influence; management awareness; benefits to company image; peer pressure/reporting by peers; and public pressure on controversial companies. On the other hand, the main barriers hindering CSER in China were revealed as insufficient regulations; lack of management awareness; increasing cost without an appropriate economic return; low-key Chinese culture and non-reporting by peers; and perceived lack of public awareness. Hence, it would appear that the main drivers of CSER adoption in China were regulations, management awareness, benefits of reporting, peers' practice, and public pressure. Drawing on these findings, together with suggestions offered by the participants, two categories of strategies are recommended to advance CSER in China. To increase external pressure on companies, the 'pushing' strategies comprise of extending the range of companies obligated under regulations; issuing mandatory standardised reporting frameworks; and improving public awareness. Meanwhile, the 'pulling' strategies to motivate companies to adopt CSER comprise of improving awareness of senior managers and creating opportunities to use CSER to build company reputation.

Overall, this engagement-based study complements the existing literature by providing an 'emic' understanding of the CSER phenomenon in China, the largest emerging and developing nation. The study also offers insights into the effectiveness of using three widely adopted Western-based theoretical perspectives in explaining CSER in China where the socio-economic, political, regulatory and cultural contexts are largely different from Western developed countries. Moreover, this study's practical implications are significant for CSER practice in China. The revealed enablers of and barriers to CSER from the perspectives of companies in China provide useful information for the Chinese government and regulators in better comprehending how to effectively set policies that promote CSER in China.

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# ABBREVIATIONS

| | |
|---|---|
| 10-K report | annual report required by the US Securities and Exchange Commission (SEC) |
| ACFTU | All-China Federation of Trade Unions |
| AIF | Annual Information Form (US) |
| APEC | Asia-Pacific Economic Cooperation (forum) |
| ASEAN | Association of Southeast Asian Nations |
| BBC | British Broadcasting Corporation |
| BRIC | Brazil, Russia, India and China |
| BSR | Business for Social Responsibility |
| CASS | Chinese Academy of Social Sciences |
| CBRC | China Banking Regulatory Commission |
| CBS | Columbia Broadcasting System |
| CEO | Chief Executive Officer |
| CEP | Council on Economic Priorities (US-based) |
| CFIE | China Federation of Industrial Economics |
| CFO | Chief Financial Officer |
| CGE | central government-owned enterprise |
| CNY | Chinese yuan (currency) |
| CPA | Certified Practising Accountants (Australia) |
| CPC | Communist Party of China |
| CSER | corporate social and environmental reporting |
| CSI | China Securities Index Co Ltd |
| CSMAR | China Stock Market & Accounting Research |
| CSR | corporate social responsibility |
| CSRC | China Securities Regulatory Commission |
| CSRI | Corporate Social Responsibility Initiative |
| EDGAR | Emissions Database for Global Atmospheric Research |
| EMBA | Executive Master of Business Administration |

| | |
|---|---|
| ESG | environmental, social and governance |
| FDI | foreign direct investment |
| FTSE | Financial Times Stock Exchange (UK) |
| GDP | gross domestic product |
| GRI | Global Reporting Initiative |
| HKEx | Hong Kong Stock Exchange |
| IEA | International Energy Agency |
| IMF | International Monetary Fund |
| ISO | International Organization for Standardization |
| LSE | London Stock Exchange |
| MBA | Master of Business Administration |
| MEP | Ministry of Environmental Protection (China) |
| MNC | multinational company/corporation |
| MOC | Ministry of Commerce (China) |
| NGO | non-governmental organisation |
| NYSE | New York Stock Exchange |
| OECD | Organisation for Economic Co-operation and Development |
| PAR | participatory action research |
| PM2.5 | fine particulate matter |
| PR | public relations |
| PRC | People's Republic of China |
| RO | research objective |
| ROA | return on assets |
| ROE | return on equity |
| RQ | research question |
| SASAC | State-owned Assets Supervision and Administration Commission of the State Council |
| SEA | social and environmental accounting |
| SEC | Securities and Exchange Commission (US) |

| | |
|---|---|
| SEPA | State Environmental Protection Administration (China) |
| SETC | State Economic and Trade Commission (China) |
| SOE | state-owned enterprise |
| SSE | Shanghai Stock Exchange |
| SZSE | Shenzhen Stock Exchange |
| TBL | triple bottom line |
| UN | United Nations |
| UNCCD | United Nations Convention to Combat Desertification |
| UNCSD | United Nations Conference on Sustainable Development |
| UNCTAD | United Nations Conference on Trade and Development |
| UNDP | United Nations Development Programme |
| UNEP | United Nations Environment Programme |
| UK | United Kingdom |
| USA/US | United States of America |
| WBCSD | World Business Council for Sustainable Development |
| WHO | World Health Organization |
| WTO | World Trade Organization |
| WWF | World Wide Fund for Nature |

# CHAPTER 1: INTRODUCTION

## 1.1 INTRODUCTION

This chapter provides an overview of the thesis. It first sets out the research background, including a general description of the important role of corporate social and environmental reporting (CSER), the enormous influence of China on global sustainability, and CSER development in the context of China as well as research on CSER, all of which indicate the significance of conducting this study. The chapter then states the research objectives and questions, and the contributions of the research, which is followed by a brief introduction to the research methodology. Lastly, the overall structure of the thesis is presented.

## 1.2 BACKGROUND

As early as the 1960s, McGuire (1963) proposed that the obligations of companies are more than just those of the economic and legal aspects, also extending towards society in general. Companies, as "key contributors to economic, environmental and social wellbeing", have a decisive influence upon the sustainable development of the economy and society (Schaltegger, Bennett and Burritt 2006, 1). In recent decades, in the face of climate change and explosive population growth, people have realised that the greatest challenge for many is achieving economic sustainability, as well as social and environmental sustainability, due to limited non-renewable resources and increased demand. Consequently, an increasing number of companies have realised the need to adopt a more sustainable operation (Global Reporting Initiative [GRI] 2013). At the same time, companies face increasing societal expectation and government pressure to carry out their business in a more sustainable way and to be more accountable and transparent about the social and environmental impacts that result from their business operations (Adams and Narayanan 2007; KPMG 2008). This leads to the need for and rise of CSER.

### 1.2.1 Corporate social and environmental reporting (CSER)

Corporate social and environmental reporting (CSER) is interchangeably known as sustainability reporting; corporate social responsibility (CSR) reporting; corporate responsibility reporting; corporate social reporting; corporate social and

environmental accounting; and non-financial reporting. It extends companies' accountability beyond their traditional role of providing an account to shareholders on their financial performance (Gray, Owen and Maunders 1987).

The World Business Council for Sustainable Development (WBCSD) (2002, 7) defined sustainable development reports as

> … public reports by companies to provide internal and external stakeholders with a picture of corporate position and activities on economic, environmental and social dimensions.

The Global Reporting Initiative (GRI) (2006, 3) defined sustainability reporting in its G3 guidelines as

> … the practice of measuring, disclosing, and being accountable to internal and external stakeholders for organizational performance towards the goal of sustainable development.

The GRI (2013, 3) also stated the important role that sustainability reporting plays in helping companies to "set goals, measure performance, and manage change in order to make their operations more sustainable". By converting abstract issues into a tangible and concrete report, sustainability reporting enables companies to gain a better understanding and management of "the effects of sustainability developments on the organization's activities and strategy" (GRI 2013, 3).

With regards to CSER, companies are held accountable to a broad range of stakeholders (Gray, Owen and Adams 1996). CSER is believed to be a useful measure to promote accountability through transparency (Elkington 1997). Transparency through CSER is regarded as the central element in communicating and building sound relationships with stakeholders (Bendell 2000; Crane and Livesey 2003), as it is not the actual conduct of an organisation, but the stakeholders' and collective social perception of its conduct that shapes its legitimacy (Suchman 1995). The major stakeholders of a company have been previously identified as including shareholders, employees, creditors, suppliers, customers, the government and regulators, media, non-governmental organisations (NGOs) and the community (Islam and Deegan 2008; Tilt 2007). Good stakeholder relations have a significant positive effect on companies' performances in the long term (Goodpaster 1991; Berman et al. 1999; Hillman and

Keim 2001). Companies are neither self-contained nor self-sufficient but, as organisations, they must rely on their environment in order to acquire and maintain resources through exchange relationships with external actors (Pfeffer and Salancik 1978). As part of the dialogue between a company and its stakeholders (Gray, Kouhy and Lavers 1995), CSER serves as a communication tool to show stakeholders how a company fulfils its social and environmental obligations (Deegan 2009; Wheeler and Elkington 2001) and its accountability to those stakeholders (Buhr 2007). Therefore, CSER practice can be seen as a vital management strategy to pursue long-term good relations with stakeholders as well as a more sustainable operation.

In the past decade, an increasing number of companies around the world have realised the importance of CSER and have started to engage with it. According to a recent survey by KPMG (2013), 71% of N100 companies (the 100 largest companies in the 41 countries surveyed) and 93% of G250 companies (the world's largest 250 companies) engaged in corporate responsibility reporting in 2013. Comparatively, only 41% of N100 companies (in the 16 countries surveyed) and 64% of G250 companies reported their corporate social reporting activities in 2005 (KPMG 2005). The KPMG survey (2013) also highlighted the exceptional growth of corporate responsibility reporting in Asian emerging economies: 71% of the surveyed companies in the Asian Pacific region produced their corporate responsibility reports in 2013, while the percentage was only 49% in 2011: in China, 75% of the surveyed companies published their corporate responsibility reports, up from 59% in 2011.

### 1.2.2 CSER in the context of China

As the second largest and fastest-growing economy, China plays an important and influential role in the global economy. Another testament to China's role as an economic powerhouse is apparent with the new establishment of the Asian Infrastructure Investment Bank that has attracted founding memberships from Australia, Great Britain, Germany, South Korea and 42 other nations. Since the economic reform in 1978, China's gross domestic product (GDP) has expanded dramatically with an approximate average of 10% in annual growth. In the past 35 years, China's GDP has increased from around US$59 billion in 1978 to approximately US$9,166 billion in 2013 (National Bureau of Statistics of China 2014). China's absorption of foreign investment has been an important economic

development strategy since the launch of the Open Door policy in 1978. Since 1992, China has maintained its position as the largest recipient of foreign direct investment (FDI) among developing countries (Invest in China 2014). According to data from the United Nations Conference on Trade and Development (UNCTAD) (2014), in 2013, the FDI inflows into Mainland China and Hong Kong accounted for around 14.25% of global FDI flows.

On the other hand, the significant influence of China on global sustainability is demonstrated by its standing as the most populous country, world's top manufacturer, leading resource consumer and largest carbon dioxide ($CO_2$) emitter. As is the case with many other emerging nations, China's emphasis on economic development has led to massive environmental and social issues, such as serious air and water pollution, soil degradation and desertification, a wide wealth gap, sweatshops, product safety and corruption, all of which are discussed in detail in Chapter 3.

With increasing concern about environmental and social issues in China, the government has widely promoted the notions of sustainable development and CSR in the past decade. CSR in China has increasingly been seen as a state-supported expectation on companies' business operations. The revised Company Law of the People's Republic of China (PRC) effective from 2006 explicitly stipulated that companies should bear social responsibilities (LawInfoChina 2005). In 2008, the State-owned Assets Supervision and Administration Commission of the State Council (SASAC) issued guidelines to urge state-owned enterprises (SOEs) to fulfil their corporate social responsibility (CSR). The China Securities Regulatory Commission (CSRC) required listed companies to pay attention to CSR in the Code of Corporate Governance released in 2002. In addition, some industry associations have released guidelines on CSR for the companies in their industries, for example, the Federation of Industrial Economics in 2012 and the China Banking Association in 2009.

The regulators of the two stock exchanges in China and the SASAC have played important roles in promoting CSER in China. CSER is commonly known as CSR reporting in China, where environmental reporting is considered as a subset of social reporting. As required by the SASAC, 150 leading state-owned enterprises (SOEs) were to release annual CSR reports from 2009, and all central government-owned enterprises (CGEs) were to release their CSR reports by 2012 (BSR [Business for

Social Responsibility] 2009; SynTao 2012a). The Shanghai Stock Exchange (SSE) has required listed companies in the SSE corporate governance sector and financial sector and those listed abroad to release their annual CSR reports from 2009 (SSE 2009a). The Shenzhen Stock Exchange (SZSE) also has required 100 companies in the SZSE 100 Index to issue CSR reports from 2009 (SZSE 2008).

Given this background, the last decade has witnessed a massive increase in CSR reports in China. In 1999, the only sustainability report published in China was by Shell China. In 2004, only four companies in China released CSR reports. However, in the first 10 months of 2014, 2,240 CSR reports were released in China (CSR-China 2014).

Although the number of CSR reports has increased rapidly, CSER in China is still at an early stage. Except for a small number of SOEs and listed companies that are obligated under their reporting requirements, CSER is still predominantly voluntary in China, and has not been adopted by most companies. In addition, according to a recent KPMG survey (2013), the quality of CSR reports in China varies dramatically and largely lags behind the global average.

Owing to the significant influence of China on global sustainability and China's massive social and environmental problems, it is essential for companies in China to pursue economic profit in harmony with the environment and society. CSER plays an important role in improving companies' transparency with regard to their social and environmental impacts, and also their accountability to their stakeholders and society.

### 1.2.3 Research on CSER

Emerging as a fringe research discipline in the 1970s, social and environmental accountability research has burgeoned over the last two decades (Parker 2005). Although there has been a dramatic increase of CSER in emerging nations (KPMG 2013), research on CSER has been primarily conducted in developed countries, with comparatively little known about CSER in developing countries (Islam and Deegan 2008; Belal and Cooper 2011), especially in China.

Belal (2008, 131) remarked that, "[c]urrently, there is almost no published research on Mainland Chinese CSR reporting". In a review of empirical CSR reporting studies in emerging economies by Belal and Momin (2009), studies in China were glaringly

absent, and the lack of theoretical interpretations of CSR research in emerging economies was investigated. As socio-economic contexts and culture are different, Western approaches may not be applicable in explaining the CSER phenomenon in Asian developing countries (Belal and Momin 2009), for example, in China (Gao 2011).

More recently, Guan and Noronha (2013) conducted a review of CSR reporting research in Chinese academia from 1990 to 2010. They remarked that among 86 Chinese academic journal articles about CSR disclosure:

- Seventy-five (75)% were purely descriptive and argumentative in nature, with little theoretical support.
- Empirical studies were dominated by quantitative content analysis, without any qualitative analysis.
- Two contemporary mainstream topics were the impacts of CSR and causal analyses between CSR disclosure and organisational characteristics.

In particular, they stated that "the underlying motivations and the reasons for insufficient disclosure" (Guan and Noronha 2013, 45) are neglected research areas of CSR reporting in China. Furthermore, they called on researchers to investigate the factors constraining or encouraging CSR disclosure from a company's perspective by interviewing management-level personnel.

As addressed in the next chapter, the empirical studies on CSER, both in developing countries and developed countries, have been dominated by the use of quantitative methodology to analyse the factors that influence the level of disclosure. Such descriptive quantitative studies can only indirectly and partly infer corporate motivations behind CSER (Belal and Momin 2009). It has been contended that more engagement-based studies are needed in CSER research (Gray 2002; Parker 2005; Belal and Momin 2009; Owen 2008), in particular, by directly seeking the views of management about their motivations to report (Islam and Deegan 2008). In addition, the overwhelming majority of empirical studies only focus on investigating motives behind CSER, while very few studies have explored the barriers to CSER.

## 1.3 RESEARCH OBJECTIVES AND QUESTIONS

To fill the important research gaps, this study by adopting qualitative methodology aims to gain a deeper understanding of the normative assumptions underpinning the CSER phenomenon in China through the 'lenses' of senior managers. This 'emic' (Pike 1967) approach investigates how local managers have perceived CSER. In particular, the three main research objectives (ROs) to be achieved are to:

**RO.1:** Explore the enabling motivations of CSER adoption in China from a managerial perspective.

**RO.2:** Explore the impediments to CSER adoption in China from a managerial perspective.

**RO.3:** Discover effective enablers that are most likely to encourage the advancement of CSER in China.

Correspondingly, the three major research questions (RQs) derived from the above objectives are:

**RQ.1:** What are the enablers of CSER for companies in China as perceived by senior managers?

**RQ.2:** What are the barriers to CSER for companies in China as perceived by senior managers?

**RQ.3:** What are the more effective ways forward to achieve improved CSER in China?

In taking the approach of obtaining the perspectives of senior managers, as indicated in RO.1, RO.2, RQ.1 and RQ.2 above, it is not the intention of this study to explore, or contribute to, the debate on the notions of managerialism versus altruism underlying corporate social responsibility (CSR) as found in the corporate citizenship literature. A branch of this literature, as explained by Idemudia (2008), typically applies a critical perspective method to addressing the relationship between corporate social responsibility and economic development. It provides an alternative way of viewing the conceptual linkages between CSR and development, as well as alternative understandings of the potential for CSR strategies to enable or limit economic development. Such 'critical perspectives' literature is outside the scope of this study.

## 1.4 RESEARCH CONTRIBUTIONS

This study complements the existing literature by providing an understanding of the CSER phenomenon in China from a managerial perspective. It not only contributes to the body of knowledge in CSER research areas, but also has implications for policy makers in practice.

### 1.4.1 Theoretical contributions

In exploring the phenomenon of CSER in China, widely adopted Western-based theoretical themes (i.e., legitimacy theory, stakeholder theory and institutional theory) in explaining CSER need to emerge in the context of China. The purpose of the study is therefore, not to test but to develop theoretical concepts within the management context of CSER in China. As it turn out, it also provided empirical evidence about the applicability of these three widely adopted Western-based theories. As one of the first few initiatives to explore managerial perceptions of CSER in China by utilising qualitative methodology, this study seeks to bridge the gap in existing CSER research.

The dominant evidence in CSER disclosure studies to date has been based on content analysis of corporate secondary data and the dominant form of analysis has been quantitative. However, such data sources and methods of analysis have been subjected to considerable criticism, as summarized by Unerman (2000). Some of the methodological issues of CSER content analysis studies highlighted by Unerman (2000) are that volume of disclosure is assumed to signify the relative importance of disclosures; most of these studies have only quantified disclosures in annual reports which gives an incomplete picture of reporting practices; the measurement technique in terms of measuring sentences or portions of pages has different effects on the relevance and accuracy of the data. By adopting a qualitative approach, this study contributes significantly to the 'emic' understanding of companies' motivations for and obstacles to CSER adoption in the specific socio-economic and institutional contexts of China, the largest emerging and rapidly developing nation.

### 1.4.2 Practical contributions

The empirical findings drawn from the managerial perceptions in this study of companies' motives for and barriers to CSER can assist government and regulators in

better comprehending how to effectively set policies that promote CSER, and can help companies to improve their awareness of CSER in China. Moreover, the suggestions from senior managers for promoting CSER in China can be a valuable reference for policy makers. In addition, the findings contribute to policy debates on whether the best way forward for China to achieve improved CSER is to rely on regulatory intervention or on a loosely regulated business environment as advocated in Western developed countries.

## 1.5 RESEARCH METHODOLOGY

This study seeks to probe to gain a deeper understanding of senior managers' subjective perceptions of CSER in China. To facilitate the emergence of respondents' views, the study adopts a constructivist paradigm which involves subjective multiple world views where participants themselves provide meanings (Creswell 2013b).

Ontologically, constructivism is grounded in the belief that reality is constructed in the actor's mind. In order to interpret and understand the reality constructed by the participants in this study, interpretivist epistemology becomes the way in which the researcher and participants co-create understanding and knowledge (Guba and Lincoln 2005). The perceptions of respondents in this study are studied through phenomenology (Sanders 1982; Giorgi 1995) and symbolic interaction (Neuman 2005; Blumer 1969). Qualitative methodology enables the researcher to build a partnership with participants, which can lead to a deep insight into the research question in its unique context (Ulin, Robinson and Tolley 2004).

This exploratory study seeks to understand the rationale behind managerial decisions about the CSER phenomenon and the symbolic perceptions of meaning that senior managers attribute to CSER in China. Therefore, a qualitative interview method is appropriate to probe answers and draw data (Cooper and Schindler 2008; Saunders, Lewis and Thornhill 2012). Semi-structured in-depth interviews between the researcher and participants were directed toward understanding participants' perceptions of CSER in China, particularly the enablers of and barriers to CSER and, if they think it is worth proceeding with, their suggestions on promoting CSER. Flexibility was retained with the questions asked in such a way so as to allow for open-ended discussion of the answers, allowing 'emic' data to emerge from the respondents (Silverman 1993).

As there is a paucity of empirical research in this area, in exploring the CSER phenomenon in China, purposeful and theoretical sampling was utilised (Creswell 2013a). The data were collected by means of interviews with senior managers from 21 large companies in China, including Chinese companies listed on the Shanghai Stock Exchange (SSE), the Shenzhen Stock Exchange (SZSE), the Hong Kong Stock Exchange (HKEx), the New York Stock Exchange (NYSE), the London Stock Exchange (LSE); state-owned enterprises (SOEs); and foreign multinational companies (MNCs) in various industries. As this study aims to uncover not only enablers of but also barriers to CSER in China, the sample covers both reporting companies and non-reporting companies, including, at the time interviews were conducted, 13 companies that had issued CSR reports and eight companies that had not issued CSR reports.

As the goal of this engagement-based field study is to understand the phenomenon rather than to generalise findings to populations, data were collected until saturation was achieved (Glaser and Strauss 1967). To achieve this, the researcher travelled to China four times during the period December 2011–March 2014 to conduct familiarisation study and interviews. Content analysis was used to analyse the interview data. Details of the research design including sampling, data collection and analysis, rigour and limitations are discussed in Chapter 4 'Research Methodology'.

## 1.6 STRUCTURE OF THE THESIS

This thesis comprises a further six chapters in addition to this introductory chapter, as illustrated in Figure 1.1 and outlined in the following paragraphs:

### Chapter 2 Literature Review

This chapter reviews the existing literature on CSER. It provides a general overview of theories applied in CSER studies in terms of definitions and three major complementary theoretical perspectives widely employed in prior research. Furthermore, it summarises the main research areas of previous empirical studies in CSER, namely, the determinants of corporate social and environmental disclosure and the motives behind CSER adoption. Based on the literature review, key research gaps in the field are identified which include: the lack of research exploring managerial perceptions of CSER directly via interviews; the lack of understanding of the barriers

to CSER adoption; and the lack of empirical studies on CSER in the developing countries' context and, particularly, in the context of China.

**Chapter 3 CSER in China**

This chapter provides a snapshot of the socio-economic and institutional contexts in which CSER takes place in China. It clarifies the importance of China's role in global sustainability in terms of its amazing economic development and the massive social and environmental problems currently faced by China. This chapter also presents the historical development and current situation of CSER in China in the past decade, with an explanation of the institutional context.

**Chapter 4 Research Methodology**

This chapter starts by discussing the rationale for the choice of the constructivist paradigm and the qualitative methodology approach. Semi-structured in-depth interviews as the primary research method employed to collect data are explained. The chapter then elaborates the details of the research design including sampling, data collection and data analysis. The study's limitations and strategies for establishing the study's rigour are also discussed.

**Chapter 5 Findings**

This chapter presents the findings of the semi-structured interviews with 21 senior managers from large companies in China. It reveals managerial perceptions of CSER in China. In particular, it identifies the enablers of and barriers to CSER in China as identified by the participants in this study. Moreover, it provides suggestions on promoting CSER in China as proposed by the participants.

**Chapter 6 Discussion**

This chapter discusses in detail the findings summarised in Chapter 5. It addresses the research questions and explains the findings with reference to CSER practices in China and the existing CSER literature. It also offers a theoretical interpretation of the emerging themes that resonate within three systems-oriented theories in the context of China. In addition, the practical implications of the study for the promotion of CSER in China are articulated.

**Chapter 7 Conclusion**

The final chapter provides a conclusion to the study by revisiting the research objectives, major findings, key contributions and limitations. Furthermore, it concludes by pointing out the potential directions for future research in the CSER area.

**1.7 SUMMARY**

This chapter has provided the study's context through a general review of the concept of CSER; its social, economic and institutional context in China; and the research gaps in the field of CSER, thus highlighting the rationale for the study. The research objectives and questions were then clarified, followed by the theoretical and practical contributions of this study. In addition, a broad review of the methodology undertaken and the overall structure of the thesis were outlined.

The details of the literature review, the CSER trend in the context of China and the research methodology are expanded upon in the following three chapters, before the findings are presented and conclusions are drawn.

| Chapter 1 Introduction | → | • Justify and clarify the research objectives, questions and contributions.<br>• Outline the structure of the thesis. |
| --- | --- | --- |
| Chapter 2 Literature Review | → | • Review the existing CSER literature and widely adopted theories.<br>• Identify the research gaps. |
| Chapter 3 CSER in China | → | • Provide an overview of the global influence of China and its social and environmental issues.<br>• Present the current situation and development trend of CSER in China. |
| Chapter 4 Research Methodology | → | • Justify the choice of qualitative research methodology.<br>• Present the research design and strategies to establish rigour. |
| Chapter 5 Findings | → | • Present the findings of interviews with senior managers. |
| Chapter 6 Discussion | → | • Interpret the findings with a consideration of the existing literature and theories.<br>• Answer the research questions. |
| Chapter 7 Conclusion | → | • Wrap up the thesis.<br>• State the limitations and scope.<br>• Suggest future research directions. |

**Figure 1.1: Structure of the thesis**

# CHAPTER 2: LITERATURE REVIEW

## 2.1 INTRODUCTION

The main purpose of this chapter is to review the existing literature on the subject of corporate social and environmental reporting (CSER), identify the research gaps and clarify the value of this study. A number of prestigious scholars (e.g. Gray, Kouhy and Lavers 1995; Mathews 1997; Gray 2002; Owen 2008; Parker 2005, 2011) have reviewed the development of CSER research in past decades from various perspectives. Instead of replicating their work, this literature review primarily focuses on the mainstream theorising in CSER and on empirical studies of the main contemporary research themes in CSER.

The introductory section is followed by a brief overview of CSER in Section 2.2. Section 2.3 reviews the two main research themes of CSER, namely, the key influencing factors in corporate social and environmental disclosure and managerial motives behind CSER. After that, three widely adopted theoretical perspectives in CSER research are explained in Section 2.4. Section 2.5 then summarises the CSER research in China. Section 2.6 reveals the gaps in existing research on CSER, which then leads to identifying the value and importance of this study. Finally, Section 2.7 provides a summary of the chapter.

## 2.2 OVERVIEW OF CSER

As early as the 1950s, Bowen (1953, 6) proposed a definition of corporate social responsibility (CSR), referring to "the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society". During the 1960s, more contemporary understandings of CSR were given: when companies made their business decisions, they should at least partially consider more than their direct economic interest (Davis 1960), and obligations of companies were more than just economic and legal, but also extended towards society (McGuire 1963). In the 1970s, the concept of CSR surfaced as companies and governments started to understand the importance of companies' long-term, sustainable value-creating ethos beyond their current financial performance (Ioannou and Serafeim 2013) and CSR started to attract more research attention (Carroll and Shabana 2010). It was proposed that companies'

responsibilities towards society included not only economic and legal aspects, but also ethical and discretionary (i.e. philanthropic) aspects (Carroll 1979, 1991). In the 1980s, the emerging global debate on sustainable development further promoted CSR (Thomas and Nowak 2006), as it is a medium by which companies can contribute to sustainable development (Moon 2007). In the late 1990s, the concept of sustainable development became widespread with the introduction of the 'triple bottom line (TBL)' (Carroll 2015), proposed by Elkington (1998) to explain the assessment of companies' sustainability based on their environmental, social and economic performance. As Elkington (2004, 3) stated, the TBL agenda "focuses corporations not just on the economic value that they add, but also on the environmental and social value that they add—or destroy". The 2005 World Summit on Social Development also identified three pillars of sustainable development: economic, social and environmental (United Nations General Assembly 2005). CSER is an important aspect of CSR as it provides a way by which to measure and report on organisations' CSR performance and their impact on society and the environment. It is also believed that CSER can be a tool to improve companies' environmental, social and governance performance (Weber 2014) by stimulating preventive corporate actions and motivating public actions to pressure for solutions to social and environmental problems (World Bank 2007).

CSER has its roots in social and environmental accounting (SEA), which is also known as social accounting and social responsibility accounting. SEA began as a distinctly fringe area of research in the 1970s, and has experienced rapid growth in terms of research in the past two decades (Parker 2005). During the 1980s, due to the economic recession in the United Kingdom (UK) and the United States of America (USA), deregulation and economics took priority over social and environmental issues, which led to the decline of social accounting (Soderstrom 2013). In the late 1980s and the early 1990s, environmental accounting re-emerged as a result of high-profile environmental incidents such as the massive chemical leak in Bhopal and the Exxon Valdez oil spill in Alaska (Soderstrom 2013). The growing environmental agenda led to a resurgent interest in social accounting (Gray and Bebbington 2000; Gray et al. 1997).

In recent decades, in the face of climate change and explosive population growth, humanity has realised that the greatest challenge for many is achieving economic

sustainability, as well as social and environmental sustainability with limited non-renewable resources and increased demand. Consequently, there is increasing societal and government pressure on companies to carry out their business in a more sustainable way (Adams and Narayanan 2007), and to be more accountable and transparent about the social and environmental impacts of their business operations. As a result, by the mid-1990s, SEA had attracted an almost unprecedented level of academic attention (Gray et al. 1997). Since then, the research has continued to grow in importance and significance with the increasing global concerns of global warming, deforestation, land degradation, pollution and human rights violations (Parker 2011).

Social accounting is a complex, diverse and constantly evolving research area that suffers from a lack of precise definition (Gray, Owen and Adams 2010). Drawing on the work of Estes (1976, 3), social accounting is "the measurement and reporting, internal or external, of information concerning the impact of an entity and its activities on society".

With the increased research interest in environmental accountability in the 1980s, the definition of social accounting was broadened to "social and environmental accounting (SEA)" by Gray, Owen and Maunders (1987, ix) as being:

> … the process of communicating the social and environmental effects of organizations' economic actions to particular interest groups within society and to society at large. As such, it involves extending the accountability of organizations (particularly companies), beyond the traditional role of providing a financial account to the owners of capital, in particular, shareholders. Such an extension is predicated upon the assumption that companies do have wider responsibilities than simply to make money for their shareholders.

In addition, some definitions of social accounting only include environmental accounting as one component. For instance, Mathews and Perera (1996, 364) considered that social accounting means:

> … an extension of disclosure into non-traditional areas such as providing information about employees, products, community service and the prevention or reduction of pollution. However, the term 'social accounting' is also used to describe a comprehensive form of accounting which takes into account externalities.

To address the point of communication with stakeholders, Gray (2000, 250) later explained corporate social reporting as:

> … the preparation and publication of an account about an organization's social environmental, employee, community, customer and other stakeholder interactions and activities and, where possible, the consequences of those interactions and activities.

There is no universal definition of CSER. Gray, Owen and Adams (1996, 3) broadly defined corporate social disclosure as:

> … the process of communicating the social and environmental effects of organisations' economic actions to particular interest groups within society and to society at large.

As mentioned in Chapter 1, CSER is variously termed as CSR reporting; sustainability reporting; corporate social reporting; non-financial reporting; etc. In this study, CSER is used as a general term to represent the disclosure and provision of social and environmental performance-related information by a company on both a voluntary and non-voluntary basis.

## 2.3 KEY RESEARCH THEMES IN CSER STUDY

CSER research has covered a wide range of themes, such as:

- Motivations and determinants for CSER.
- Stakeholder reactions to CSER.
- New accounting systems incorporating CSR performance.
- The role of accounting in specifically promoting/undermining the environment and/or particular stakeholders.
- Social and environmental audits.
- Theory development to explain CSER practice.
- CSER research method issues (Deegan and Soltys 2007).

Of all CSER research areas, particular emphasis has been placed on investigating the determinants/influencing factors of CSER and managerial motivations underpinning CSER initiatives (Owen 2008), which are the two main contemporary empirical research areas.

**2.3.1 Determinants/influencing factors of CSER**

Most of the earlier empirical CSER studies were descriptive and quantitative, using content analysis methodologies to measure the level of disclosure and its determinants. This trend continues as one of the dominant strands of CSER studies. The most widely tested influencing factors can be categorised into the following three groups (Adams 2002):

1) Corporate characteristics (e.g. size, industry category, financial performance).
2) General contextual factors (e.g. origin of country; media pressure; stakeholders; and social, political, cultural and economic contexts).
3) Internal context (e.g. corporate governance factors).

Examples of these studies are listed in Table 2.1 and highlighted in the following three subsections.

*2.3.1.1 Corporate characteristic factors*

A number of empirical studies have revealed consistent results that company size and industry sensitiveness are two positive factors of CSER. However, the influence of companies' financial performance and leverage ratio on their CSER is different.

An early study by Trotman and Bradley (1981) examined the annual reports of 207 Australian listed companies, identifying a positive relationship between companies' social information disclosure level and their size. Another early study by Cowen, Ferreri and Parker (1987) analysed the corporate responsibility disclosures in annual reports of 134 US Fortune 500 companies in 10 different industries, and found that company size had a positive influence on disclosure level, while corporate profitability had no significant impact. Results consistent with these findings were received by Hackston and Milne (1996) who investigated the social and environmental disclosures in 1988–1992 annual reports of the 47 largest listed companies in New Zealand and found a positive relationship between company size and disclosure level. Although four profitability measures were tested in their study, none of them was significantly associated with disclosure level. Furthermore, a study in Spain by Reverte (2009) also found that CSR disclosure level was positively related to company size, but not related to financial performance.

However, positive correlations between CSER disclosure level and company profitability were found in several other studies. Tagesson et al. (2009) investigated social and environmental disclosures on the websites of 169 Swedish listed companies, and concluded that disclosure level was positively associated with company size and profitability. Moreover, several prior studies (e.g. Murray et al. 2006; Li and McConomy 1999; Roberts 1992; Barth, McNichols and Wilson 1997) also reported a positive correlation between CSER disclosure level and companies' financial performance. On the contrary, Ho and Taylor's (2007) study on the 50 largest US and Japanese companies found a negative relationship between companies' profitability and the extent of their social and environmental disclosures.

In addition to company profitability, another difference is in leverage ratio. Roberts (1992) studied the CSR disclosure level of 130 major Fortune 500 companies from seven industries during 1984–1986. The findings showed that factors such as leverage ratio, company age and company size all had a positive influence on the disclosure level. However, Haniffa and Cooke's (2005) study on 139 non-financial listed companies in Malaysia found that leverage ratio had no influence on CSER disclosure levels. In Lu and Abeysekera's (2014) study, the environmental disclosure level of Chinese listed companies was negatively related to the financial leverage ratio.

On the other hand, the influence of industry classification on CSER disclosure level was widely accepted in many studies. Yamagami and Kokubu (1991) examined the voluntary CSR reporting of the 49 largest international companies included in Fortune 500 in Japan from 1985–1986, and concluded that the industry category was a strong explanation factor in CSR disclosures. Tagesson et al.'s study (2009) in Sweden discovered that the consumer goods industry had higher disclosure levels of ethics information, while the manufacturing industry disclosed more environmental information. Deegan and Gordon (1996) examined 197 Australian companies' environmental disclosures in their annual reports for the 1991 financial year. Their results showed that companies in environmentally sensitive industries had a higher environmental disclosure level. Similarly, Gamerschlag, Möller and Verbeeten (2011) investigated the CSR disclosures of the 130 largest listed German companies in the period from 2005–2008, and concluded that companies in polluting industries disclosed more environmental information. Results consistent with these findings were

received by Bewley and Li (2000), who examined the annual environmental disclosures of 188 Canadian manufacturing companies; and also by Reverte (2009), who studied CSR disclosures of the largest 35 Spanish listed companies. In addition, some other studies (e.g. Cowen, Ferreri and Parker 1987; Roberts 1992; Hackston and Milne 1996) have drawn the conclusion that companies in high-profile industries had higher CSER disclosure levels.

In short, evidence from many empirical studies has showed that larger companies and companies in high-profile/environmentally sensitive industries disclosed more social and/or environmental information. As Patten (1991) suggested, company size and industry classification are two proxies for public pressure: larger companies and companies in high-profile industries are more likely to be subjected to higher public scrutiny so they need to disclose more information to maintain their legitimacy. On the other hand, different studies received divergent results on the influence of profitability and leverage ratio on companies' CSER. The divergence could partly be due to the various measuring units of disclosure level, profitability and leverage ratio selected in different studies. For example, different measures were used to achieve disclosure levels, such as counting the words/sentences/lines/pages and scoring the items/categories mentioned according to various indexes.

### 2.3.1.2 General contextual factors

Many empirical studies have indicated differences in the views towards CSER caused by divergent social, political, economic, cultural and institutional contexts in different countries. Some representative studies are reviewed in the following paragraphs.

Adams and Kuasirikun (2000) compared the annual reports of the 20 largest UK and German chemical and pharmaceutical companies during the period 1985–1995. Their findings suggested that German companies' reporting practices were at a more mature level than those of UK companies, and also that German companies disclosed more environmental information, which was largely due to the environmental disclosure regulations present in Germany, but not in the United Kingdom (UK).

Buhr and Freedman (2001) examined environmental disclosures of US and Canadian companies in their annual reports, environmental reports and security exchange filings. The sample included 56 pairs of US and Canadian companies of comparable size in

1988, and 68 pairs in 1994. The conclusions were that Canadian companies produced more voluntary disclosures, particularly in their environmental reports, while the US companies were inclined to provide mandated disclosures in their annual reports and security exchange filings. Cultural and institutional factors such as the political and legal systems and business climate were included in the discussions of the disclosure difference between these two countries. The litigious nature and individualistic approach of the USA could be a reason for the greater extent of mandatory (i.e. legal/cost) disclosures of US companies, while the lower prospect of litigation over disclosure content and the more group-oriented cooperative social environment in Canada could partly explain the higher voluntary disclosure level of Canadian companies (Buhr and Freedman 2001).

Ding (2002) compared the annual reports of 38 large listed French companies and 29 large listed Chinese companies, and suggested that French companies' reports had more user-friendly information and a larger volume of disclosure of environmental information, technological innovation, corporate stock, segment earnings and revenue, and indebtedness, while Chinese companies' reports focused more on future trends and prospects and looked more homogenous both in volume and content. The difference was explained by the major economic and cultural differences between China and France. In particular, Ding (2002, 157) stated that there were significant differences in the economic environment between China and France in terms of "economic development, the growth rate, the development of financial markets, the size and complexity of enterprises and technological innovations".

Holland and Foo (2003) analysed the environmental reporting of 20 large listed companies in sensitive industries in the UK and the USA, respectively. They reported that 53% of the UK companies produced stand-alone environmental reports, which was more than the 39% of companies in the United States (USA). In addition, they found that US and UK companies focused on different disclosure items: 89% of the UK companies disclosed environmental awards or certification, compared to only 33% of the US companies; 72% of the US companies disclosed environmental regulation information, compared to only 37% of the UK companies; and US companies also produced more information in relation to environmental risk, expenditure and lawsuits. Holland and Foo (2003) suggested that meeting customers' requirements could be a

motive for a larger number of UK companies to disclose awards or certification (such as the ISO14000 series) while higher legislative pressures (due to more stringent environmental legislation and the disclosure requirement of the *Superfund Act 1980*) in the USA could be a reason for more US companies disclosing environmental regulation. They also commented that the environmental reporting practice in the UK was more driven by proactive environmental management and reporting initiatives, while the practice in the USA was more in reaction to legislation. Their study provided evidence that the legal and regulatory frameworks in different countries influenced their companies' environmental performance and disclosure.

Kolk (2003) studied the sustainability reports and annual reports of 222 Global 250 companies during the period 1998–2002 to investigate country differences relating to CSER. The statistics showed that the UK, Japan and Germany had higher disclosure levels, while France stood out with the largest increases in disclosure. Kolk (2003) concluded that different levels of government regulation and social attention were the main reasons for the difference.

Smith, Adhikari and Tondkar (2005) analysed the social information disclosure levels of 32 Norwegian/Danish companies and 26 US companies in the electric power generation industry. They found that Norwegian/Danish companies disclosed more words, sentences and pages of social information in their annual reports. According to their explanation, the disclosure difference was due to differences in the cultures, ownership structures, corporate governance systems and stakeholders' pressures between these countries.

Ho and Taylor (2007) examined the triple bottom line (TBL) reporting of the 50 largest US and Japanese companies based on their annual reports, stand-alone reports and website reports. Their results showed that the overall disclosure level, especially for environmental disclosures, of Japanese companies was higher than for US companies with this attributed to the different institutional factors such as culture and regulatory environment in these two countries. Japanese culture was seen as featuring high uncertainty avoidance and collectivism which led Japan to be more active in environmental activism (Katz, Swanson and Nelson 2001, cited in Ho and Taylor 2007). In addition, they mentioned that both the Japanese Ministry of Economy, Trade and Industry and the Ministry of the Environment had issued guidelines on

environmental reporting for companies to adopt voluntarily, while in the USA, disclosure regulations and requirements on environmental reporting mainly focused on environmental liabilities.

Many other comparative studies of CSER practice have been conducted earlier in different countries. Guthrie and Parker (1990) compared the annual report social disclosures of the 50 largest listed companies in the UK, the USA and Australia. Gamble et al. (1996) analysed the environmental disclosures of 276 companies in 27 countries from 1989–1991. Craig and Diga (1998) examined the social and non-financial disclosures in annual reports of 145 listed companies in the Association of Southeast Asian Nations (ASEAN), including Singapore, Malaysia, Indonesia, the Philippines and Thailand. Adams, Hill and Roberts (1998) investigated the annual report social disclosures of 150 companies from six European countries, namely, the UK, France, Germany, the Netherlands, Sweden and Switzerland. Williams (1999) studied the social and environmental disclosures in the annual reports of 356 listed companies in seven Asian Pacific nations, namely, Australia, Singapore, Hong Kong, the Philippines, Thailand, Indonesia and Malaysia. These studies also demonstrated that differences in the national environment in the culture and in terms of social, political, legal and economic matters had influence on companies' CSER practice.

In addition to findings on the country context, a few empirical studies have shown that CSER is also influenced by media pressure. As with size and industry sensitivity, media coverage is another proxy for public pressure, which impels companies' CSER practices.

Brown and Deegan (1998) conducted a content analysis study to investigate the relationship between print media coverage on environmental issues and the level of companies' environmental disclosures. Their sample included the annual reports and media data of 27 Australian companies in nine industries during the period 1991–1994. The results indicated that in most industries, companies with higher media attention disclosed significantly more environmental information. Legitimacy theory and media agenda theory were invoked to explain the findings. Media attention on environmental issues shaped community expectations of companies: when companies' legitimacy was perceived to be threatened by public concerns, companies increased their environmental disclosures to legitimate their practices. In Portugal, Branco and

Rodrigues (2008) investigated the CSR disclosures of 49 listed companies in their annual reports and on the internet. They found that media coverage, which was measured by the number of articles relating to social responsibility issues in two newspapers, was a positive influence factor of companies' social responsibility disclosure level. Media attention raised companies' visibility to the public, which led to further public scrutiny and pressure on those companies (Bansal 2005, cited in Branco and Rodrigues 2008). From a legitimacy theory perspective, companies with higher visibility exhibited greater concern about their corporate image, which caused them to make more CSR disclosures in order to present a socially responsible image and legitimise their practices (Branco and Rodrigues 2008). In Spain, the results of Reverte's (2009) study on listed companies also showed that media exposure was the most influential factor in CSR disclosures, followed by size of company and the industry. In Canada, Bewley and Li's study (2000) on manufacturing companies also suggested a significant positive correlation between the number of environmental articles in news media concerning the companies' environmental exposure and their general environmental disclosures.

### 2.3.1.3 Corporate governance factors

In an early study by Cowen, Ferreri and Parker (1987), the existence of CSR committees in US companies was found to have a positive influence on their CSER disclosure levels. Later, a longitudinal study by Campbell (2000) of a British retailer for the period 1969–1997 discovered a significant association between variations in CSR disclosure level and senior management's terms of office, which indicated the level of managerial influence on CSR disclosures.

Another longitudinal study by Cormier, Magnan and Van Velthoven (2005) examined the annual reports and environmental reports of 55 German listed companies during the period 1992–1998. From 304 firm-year observations, they concluded that the environmental disclosure level was negatively associated with ownership concentration and foreign ownership. A more recent study on the 130 largest listed companies in German by Gamerschlag, Möller and Verbeeten (2011) also found that concentrated ownership had a negative influence on CSR disclosures, and that US cross-listed companies in Germany disclosed more CSR information.

In a developing country context, multiple listing was also found to have a positive influence on companies' social disclosure level in Haniffa and Cooke's (2005) study on Malaysian companies. In addition, their findings suggested the disclosure level was positively associated with having a high proportion of non-executive directors on the board, foreign share ownership and multiple directorships. Similar results were found in a study by Khan (2010), who examined the annual report CSR disclosures of 30 private commercial banks in Bangladesh, and discovered a high proportion of non-executive directors and a high proportion of foreign nationals on boards positively influenced CSR disclosure levels. Another study in Bangladesh by Rashid and Lodh (2008) investigated the annual report social disclosures of 21 listed companies from 2003–2007. Their results showed that external independent directors had a positive influence on the disclosure level, while concentrated ownership was a negative influence factor.

### 2.3.2 Managerial motivations underpinning CSER

Another prominent CSER research area is managerial motivations behind CSER which has attracted increasing attention from scholars in recent years. The reasons for companies to engage in CSER are complicated. Gray and Bebbington (2001, 242) listed some possible reasons for companies to adopt voluntary environmental disclosures:

- If not done voluntarily, it will be mandatory.
- To provide impetus to internal development.
- To legitimize current activities.
- To distract attention from other areas.
- To develop corporate image.
- To build up expertise in advance of regulation.
- Positive impact on share price.
- Reduction in perceived (company or information) risk.
- Political benefits.
- Competitive advantage.
- Shareholders' and other stakeholders' rights to know.
- To explain expenditure patterns.
- The desire to tell people what the company has done/achieved.
- Forestall disclosure by other parties.

Deegan (2002, 290-291) also suggested some possible motives for companies to disclose social and environmental information, including:

- The desire to comply with legal requirements.
- "Economic rationality" considerations.
- A belief in accountability or responsibility to report.
- A desire to comply with borrowing requirements.
- To comply with community expectations.
- As a result of certain threats to the organisation's legitimacy.
- To manage particular (perhaps powerful) stakeholder groups.
- To attract investment funds.
- To comply with industry requirements.
- To forestall efforts to introduce more onerous disclosure regulations.
- To win particular reporting awards.

Some of these reasons are supported by empirical studies. The majority of empirical studies on CSER have used quantitative content analysis exclusively to infer the motives underpinning CSER by relating disclosure level to external factors, while a small body of more recent studies has started to directly probe managerial motivation via interviews. Some of these empirical studies have used theoretical understandings (mostly legitimacy theory, stakeholder theory and institutional theory) to interpret their findings. The following subsections summarise the three main motives underpinning CSER found in empirical studies, which are also listed in Table 2.2.

### 2.3.2.1 Motive one: To maintain legitimacy/comply with social expectation

Several studies have suggested that maintaining legitimacy under public pressure in a social and environmental context was a major motive for companies to adopt CSER. The majority of these studies employed the content analysis method to infer the motives behind CSER and adopted legitimacy theory to explain their findings. These content analysis studies can be mainly divided into three categories according to their different angles of view, as discussed in the following paragraphs.

First, some studies examined the effect of a single event on companies' social and/or environmental disclosures by comparing the disclosure levels before and after the event. A famous study by Patten (1992) examined the effect of the Exxon Valdez oil spill event on environmental disclosures of the petroleum industry. Patten (1992) used

21 publicly traded Fortune 500 companies in the petroleum industry as the study sample, and compared the number of environmental disclosure pages on their annual reports before and after the event. The result showed that the companies significantly increased their volume of environmental disclosures after the event to deal with the threats to their legitimacy. Walden and Schwartz (1997) also investigated the change in environmental disclosure level of companies subsequent to the Exxon Valdez oil spill event. Their study included the 1988–1990 annual reports of 53 companies in the oil industry, consumer products industry, chemical industry and forest products industry. The number of sentences and financial statement lines was used to measure the quantity of environmental disclosures, while a four-element index method was developed to assess the quality of disclosures. Their findings showed a significant increase in non-financial environmental disclosure levels in terms of quantity and quality in all industries, and a significant increase in financial environmental disclosure levels in oil and forest products industries after the incident. They concluded that environmental disclosures of companies were time-specific and event-specific, and that companies increased their environmental disclosures in response to public policy pressure. Similarly, Hutchings and Taylor (2000) employed legitimacy theory to explain why mining companies operating in Australia and Asia significantly increased environmental disclosures in their annual reports after the Ok Tedi River pollution lawsuit against BHP Ltd. Magness (2006) examined the annual report environmental disclosures of 44 publicly traded gold mining companies in Canada after the Omai mine accident in Guyana in 1995 to test legitimacy theory. The findings suggested that the companies which maintained visibility in public through a stronger media presence disclosed more environmental information in their annual reports after the accident.

Second, some studies compared social and/or environmental disclosures among different companies during the same period. Deegan and Rankin (1996) analysed the 1990–1993 annual reports of 20 Australian companies by counting the words devoted to environmental disclosures. They found that the companies which had been prosecuted made significantly more positive environmental disclosures to legitimise their operations. Meanwhile, all companies were reluctant to release negative environmental information. Patten (2002) examined the environmental disclosures of 131 US companies based on their annual reports, and found that companies with a poorer environmental performance disclosed more environmental information.

Patten's (2002) explanation was that poorer environmental performance increased the threats to companies' social legitimacy and that environmental disclosures were undertaken as a legitimising activity by those companies. Cho and Patten (2007) investigated the non-litigation-related environmental disclosures in the 10-K reports (annual reports required by the US Securities and Exchange Commission [SEC]) of 100 US companies which were listed in the ratings of corporate social and environmental performance compiled by an independent rating company, KLD Research and Analytics. Their findings indicated that companies with poorer environmental performance and companies operating in environmentally sensitive industries disclosed more environmental information, which supported the view that environmental disclosures were used as a legitimising tool by companies.

Third, scholars also adopted longitudinal case studies focusing on one or two companies to test legitimacy theory. Buhr (1998) conducted an in-depth case study on the environmental disclosures of an international resource company for the period 1964–1991. She quantified the disclosure volume based on the number of sentences devoted to relevant areas in annual reports, and employed legitimacy theory to explain the increase in environmental disclosures after the company encountered critical environmental issues such as becoming the accepted source of acid rain and sculpture dioxide emissions. Tilling and Tilt (2010) focused on the CSER of an Australian listed tobacco company for the period 1956–1999, and found that the number of sentences devoted to CSER in its annual reports was significantly correlated to the number of articles relating to health during the smoking and health debate, suggesting that the motive of the company's CSER was to maintain and defend its legitimacy. Another study by Deegan, Rankin and Tobin (2002) examined the social and environmental disclosures of BHP Ltd in Australia during the period 1983–1997 to test legitimacy theory. The disclosure level was measured by the number of sentences devoted to social and environmental information in BHP Ltd's annual reports, while the societal pressure/community concern was represented by the total number of media articles in major newspapers with the largest circulations in Australia. Their results suggested that BHP Ltd disclosed more social and environmental information in its annual reports when the level of media coverage was higher. In addition, a positive correlation was found between the number of positive sentences devoted to social and environmental information and the number of unfavourable media articles. These

findings supported the legitimation motive of companies' CSER and media attention as a driver of CSER. Islam and Deegan (2010) investigated the CSR disclosures of two multinational clothing and sportswear companies which outsourced a significant proportion of their production to developing countries. They measured the social and environmental information disclosures in these companies' 1988–2006 annual reports by word counting, and used the number of negative industry-related media articles in the same time period to represent the legitimacy threats that the companies faced in their social and environmental contexts. A significant positive association between the disclosure level and the amount of negative news was found, with this interpreted through legitimacy theory and media agenda-setting theory.

Differing from the content analysis studies above, two studies by O'Donovan (2002) and Larrinaga-González et al. (2001) directly investigated companies' environmental disclosure choices from a senior manager's perspective via interviews. O'Donovan (2002) interviewed six senior managers from three large Australian listed companies to obtain their responses to some scenarios of hypothetical environmental issues faced by fictitious companies. The interviewees were required to choose and rank different types of predesigned annual report disclosures in different scenarios and explain their decisions at the interviews. The findings supported legitimacy theory, and suggested that, in response to a threatening environmental issue, companies would choose certain legitimation tactics in annual report disclosures according to the perceived significance of the issues and in order to gain, maintain or repair legitimacy. Larrinaga-González et al. (2001) conducted 15 semi-structured interviews with corporate environmental officers/managers and senior executives of nine companies in Spain, and found that Gray et al.'s (1995) model of organisational change and environmental accounting also applied to the Spanish context. Their findings indicated that environmental accounting was adopted by Spanish companies in order to negotiate and control the environmental agenda, but that companies' conventional perception of the environment was not truly changed. Legitimacy theory and political economy theory were invoked by Larrinaga-González et al. (2001) to interpret their findings.

### 2.3.2.2 Motive two: To manage particular stakeholder groups

To manage particular stakeholder groups is another major motive behind CSER that has been supported by many empirical findings. Stakeholder theory was adopted as a

theoretical perspective in some of these studies. The literature has covered the influence of various major stakeholders (such as government, shareholders, customers, NGOs and media) on companies' CSER decisions. Some examples are reviewed below.

Harvey and Schaefer (2001) conducted a comparative case study on six UK water and electricity companies. Through interviews with senior managers and staff, they concluded that the government and regulators had a significant and immediate influence on companies' environmental practice and reporting as a result of their institutional power, while customers and the general public were also considered to be influential. In the context of China, the government's large influence on CSER has been demonstrated in a number of studies. For example, the government was viewed as a powerful stakeholder driving corporate environmental disclosures in Liu and Anbumozhi's study (2009) on Chinese listed companies. In Dong, Burritt and Qian's (2014) study on listed mining and minerals companies in China, the government, as a salient stakeholder, was found to be a large driving force in companies' CSR reporting. Similarly, Kuo, Yeh and Yu (2012) also employed stakeholder theory to explain the government's positive impact on CSR reporting in their study of Chinese companies.

In an Australian context, the following two studies suggested that shareholders had more influence on companies' social and environmental practice and reporting. A study by Wilmshurst and Frost (2000) involved mail surveys of 62 listed companies in eight environmentally sensitive industries. Chief Financial Officers (CFOs) or senior managers were required to rate on a ranking-order Likert scale the relative importance of 11 possible influential factors on their motivation to adopt environmental reporting. The results showed that the highest rating was concern about shareholders' information needs, followed by legal obligations, due diligence requirements and community concerns. The other study conducted by Lindorff and Peck (2010) involved interviews with 10 leaders of large financial institutions in Australia. Their findings suggested that many leaders saw the primary responsibility of a company was to meet the obligations to shareholders by maximising its value. These leaders believed in the financial benefits of CSR activities to companies, although they also considered building corporate sustainability and social capital. Three critical reasons for leaders to promote CSR activities revealed in their study

were: (1) management had a role to respond to the mutual interest of the business and society; (2) the reputation of companies; and, particularly, (3) the pressure from shareholders and employees.

Customers' influence on CSER has also been found in a few studies. Haddock-Fraser and Tourelle (2010) examined the environmental disclosures of UK's FTSE 100 companies in nine industries using the content analysis method, and found the companies that supplied goods or services directly to customers adopted more proactive environmental reporting to manage their reputation among customers. Branco and Rodrigues (2006) investigated the CSR disclosures of 15 Portuguese banks in their annual reports and on the internet. Their results showed the disclosure level was positively related to the number of bank branches scattered throughout Portugal, which is a proxy of their visibility among customers. The finding was interpreted with a legitimacy theory perspective that banks with a higher visibility among customers exhibited greater concern to improve their corporate image to legitimise their behaviours. In a developing country context, Islam and Deegan (2008) interviewed 12 senior executives of export-oriented garment manufacturers in Bangladesh, and quantified the social and environmental disclosure level on their 1987–2005 annual reports by word counting. Their study employed both legitimacy theory and stakeholder theory to explain these companies' reactive nature to major pressure events and groups in their CSER practice. In particular, their study emphasised the power of multinational buyers as customers to create a change in these manufacturers' CSER practices. Another study in Bangladesh by Belal and Owen (2007) also concluded that managing economically powerful stakeholder groups was a major driver of corporate social reporting, based on interviews with senior managers of 23 companies. International buyers' demands were identified as a large driving force of the social reporting of domestic companies competing in the export market. In addition, multinational companies (MNCs)' social reporting practices were found to be driven by pressures from their parent companies, investors and international agencies, as well as by the desires to both maintain good relations with the government and attract employees.

Although NGOs and media are categorised as secondary stakeholder groups, they were found to be active and powerful in some studies. In Australia, Deegan and Blomquist

(2006) conducted a case study to examine the influence of an NGO—World Wide Fund for Nature (WWF)—on environmental reporting practices of the Australian minerals industry. They interviewed a project leader of WWF and representatives from the six companies that signed the Australian Minerals Industry Code for Environmental Management. They found that the mining companies reacted to WWF's evaluations of their environmental reports by improving their reporting behaviour, and WWF's initiatives also influenced the revisions of the industry code. Deegan and Blomquist (2006) suggested that a motive of companies' environmental reporting was to forestall regulation from the government by collaborating with non-governmental organisations (NGOs). Another study in Australia by Deegan and Rankin (1996) also found a positive association between the corporate environmental disclosure level and environmental lobby groups' concerns about the environmental performance of companies.

As stated in subsection 2.4.2.1, the media's large influence on companies' CSER has been demonstrated in a number of studies in different countries. According to Reverte (2009, 356), "the media can play an important role in mobilising social movements such as environmental interest groups. In doing so, it becomes part of the institution-building process, shaping the norms of acceptable and legitimate CSR practices". The power of the media lies in its ability to raise public pressure on companies, and therefore its influence is more often interpreted from a legitimacy theory perspective rather than a stakeholder theory perspective.

### 2.3.2.3 Motive three: To manage corporate image

Several empirical studies in different countries have shown that improving corporate image was a reason behind companies' CSER. Some of these studies adopted interview or questionnaire methods to uncover this motive directly from the responses of senior managers or relevant personnel, while other studies inferred that CSER is relevant to improving company image from the fact that companies selectively disclosed much positive social and environmental information and little or no negative information. The following paragraphs provide some examples.

Adams (2002) interviewed the relevant personnel of seven large multinational chemical and pharmaceutical companies in the UK and Germany, and revealed the main motivation behind CSER was enhancing their corporate image and credibility

with stakeholders, while the main reason for starting their CSER was public pressure. In addition, Adams (2002) revealed that the reason why these companies disclosed very little bad news was due to their concern about the unknown or negative public reaction.

In Australia, Lindorff and Peck's (2010) study based on interviews with corporate leaders revealed that the reputation of companies was a critical driver for them to embrace CSR initiatives. In Bangladesh, Belal and Owen's (2007) interview-based study also found that a major driving force of CSER as perceived by senior managers was improving corporate image. Moreover, a focus group study by Vilanova, Lozano and Arenas (2009) with 35 senior managers from the European financial sector suggested that corporate reputation was a fundamental driver of CSR implementation.

In the UK, Solomon and Lewis (2002) investigated the incentives and disincentives of corporate environmental reporting based on 267 questionnaire surveys with three sub-sample groups. Their results indicated that "to improve corporate image" was the greatest incentive for corporate environmental disclosures as perceived by both the normative group (including environmental consultants, academics, government organisations, trade and industry associations, and professional organisations) and the interested group (including financial advisors, fund managers, researchers, political and professional bodies, banks, institutional investors and the media). Furthermore, the responses of the company group revealed that "to acknowledge social responsibility" and "to improve corporate image" were the two most important reasons for their environmental reporting.

In the USA, Cho, Roberts and Patten (2010) investigated corporate environmental disclosures in 10-K annual reports of 192 companies in 2002, and found that companies with poorer environmental performance emphasised good news, obfuscated bad news and used more optimistic and ambiguous language, indicating that environmental disclosures were used as a tool by companies to manage stakeholder impressions of their performance. In Australia, the findings of Deegan and Gordon's (1996) study suggested that environmental reporting was self-laudatory with little or no negative news disclosed by all the sample companies. It was perceived that the companies disclosed good news to promote the positive aspects of their environmental performance. Some other studies also had the consistent finding that

companies selectively disclosed good news, for example, Deegan and Rankin's (1996) study in Australia; Hackston and Milne's (1996) study in New Zealand; and Harte and Owen's (1991) study in the United Kingdom (UK).

## 2.4 THEORETICAL PERSPECTIVES

Gray, Owen and Adams (2010, 4) have pointed out the importance of theories for social accounting in "open[ing] out the world and the possibilities of that world", and also in controlling perceptual biases. In addition, they addressed a significant bias in social accounting literature towards developed countries, and stated that theorising about social accounting should also apply to the practices in developing countries. This section provides a review of the widely applied theories in SEA, which are all based on the model from Western developed countries.

### 2.4.1 Overview of theories in CSER studies

No conclusively agreed theoretical perspective exists in SEA research. Various theories have been used to explain companies' social and environmental disclosure in different studies. Deegan (2012) broadly categorised accounting theories into two groups: positive and normative. Positive theories predict and explain what will happen in particular phenomena: the predictions are developed and supported from observations and empirical research (Deegan 2012). Normative theories prescribe what should be done to achieve particular outcomes: these prescriptions might significantly diverge from the actual practice (Deegan 2012). This review of theories in SEA mainly focuses on positive theories: as this study aims to explain the CSER practice in China, normative theories such as accountability theory have little explanatory power for the actual practice.

Gray, Kouhy and Lavers (1995, 50) broadly categorised the theoretical perspectives of CSER empirical studies into three groups:

1) "Decision-usefulness theories, (which overlap with)"
2) "Economic theories" (e.g. economic agency theory and positive accounting theory), and
3) "Social and political theories" (e.g. political economy, stakeholder theory, legitimacy theory).

A big problem of the decision-usefulness approach is that CSR and CSER are not predominantly driven by a concern to meet the needs of financial stakeholders (Gray, Kouhy and Lavers 1995). Similarly, economic theories which also focus on financial stakeholders are highly contestable. A decision-usefulness approach is based on the assumption that all individuals are driven by their economic self-interest, but CSER is not primarily motivated by the desires of financial stakeholders who are not its primary beneficiaries (Parker 2005; Gray, Kouhy and Lavers 1995). On the other hand, in recent years, social and political theories have been widely accepted in CSER studies. Prominent among this group is the political economy theory which, in explaining CSER, incorporates "the social, political and economic framework within which human life takes place" (Gray, Owen and Adams 1996, 47). This theory views society, politics and economics as inseparable: economic issues cannot be considered in isolation to the political, social, environmental and institutional context within which these economic issues take place (Deegan and Blomquist 2006).

The two main branches of political economy theory are classical theory and bourgeois political economy theory. Classical political economy theory addresses class interests, structural inequity, conflict and the role of the state. Focusing on the structural conflicts within society, classical political economy theory perceives accounting reporting and disclosure as tools of "maintaining the favoured position (for example, the wealth and power) of those who control scarce resources (capital)" and "undermining the position of those without scarce capital" (Deegan 2009, 322). On the other hand, bourgeois political economy theory ignores these structural conflicts and class struggles but rather concerns the "interaction between groups in an essentially pluralistic world (e.g. the negotiation between a company and an environmental pressure group or between a local authority and the state)" (Gray, Owen and Adams 2010, 20). Bourgeois political economy theory is the most common theorisation in companies' general accounting and SEA practice (Gray, Owen and Adams 2010). Emanating from bourgeois political economy theory are stakeholder theory (a managerial approach) and legitimacy theory.

Stakeholder theory, legitimacy theory and institutional theory are the most widely adopted theories in recent CSER studies. These three theories are all systems-oriented theories, which consider the organisation as a part of a wider social system and assume

the organisation "to be influenced by, and in turn to have an influence on, the society in which it operates" (Deegan 2009, 320). Systems-oriented theories explain "the role of information and disclosure in managing relationships between the organisation and the communities with which it interacts" (Deegan 2012, 109). With a systems-oriented perspective, accounting disclosure (including CSER) is viewed as a strategy to manage the organisation's relationships with other parties with which it interacts in the social system by influencing their perceptions of it (Deegan 2009).

### 2.4.2 Stakeholder theory

#### 2.4.2.1 Concepts of stakeholder

Freeman and Reed (1983, 91) proposed one wide and one narrow definition of stakeholders. In the wide sense, stakeholders can be "any identifiable group or individual who can affect the achievement of an organization's objectives or who is affected by the achievement of an organization's objectives", while the narrow definition of stakeholder is "any identifiable group or individual on which the organisation is dependent for its continued survival". Employees, customers, suppliers, the government and shareholders are given as examples of stakeholders in the narrow sense, while other entities such as public interest groups, trade associations and unions are included in the wide sense of stakeholders (Freeman and Reed 1983). They also pointed out that although companies are willing to accept the narrow definition of stakeholder, they must also recognise the wide sense of stakeholder as these entities "can affect the achievement of the organization's objectives" (Freeman and Reed 1983, 91). In a follow-up book, Freeman (1984, 41) offered a broad view of stakeholders as "any group or individual who can affect or is affected by the achievement of the organization's objectives", which is in line with the wide definition proposed earlier.

Hill and Jones (1992, 133) addressed the rights of stakeholders by defining them as "groups of constituents who have a legitimate claim on the firm". The legitimacy of the claim is justified by the exchange relationship between the groups supplying critical resources to the firm, with the firm expected to satisfy the interests of the groups (Hill and Jones 1992).The examples of stakeholders given by Hill and Jones (1992) are shareholders, creditors, managers, employees, customers, suppliers, local communities and the general public.

Another similar definition provided by Clarkson (1995, 106) defined stakeholders as "persons or groups that have, or claim, ownership, rights, or interests in a corporation and its activities, past, present, or future". He also classified stakeholders into two groups: primary stakeholders and secondary stakeholders based on their influence on the success of the corporation. A primary stakeholder is "one without whose continuing participation the corporation cannot survive as a going concern" (e.g. shareholders and investors, employees, customers, suppliers, the government and regulators) (Clarkson 1995, 106) which is similar to the narrow definition of stakeholder by Freeman and Reed (1983). Secondary stakeholders are "those who influence or affect, or are influenced or affected by, the corporation, but they are not engaged in transactions with the corporation and are not essential for its survival", such as the media and non-governmental organisations (NGOs) (Clarkson 1995, 107). The main difference between these two groups of stakeholders is that primary stakeholders have more power over the corporation than secondary ones. Failure to retain the support and participation of primary stakeholders will lead to the failure of the company, while secondary stakeholders are not able to threaten the survival of the company, although they could cause it significant damage.

### 2.4.2.2 Two branches of stakeholder theory

Stakeholder theory is generally classified into normative and managerial branches. The normative branch rests on the moral point of view that companies have a responsibility to their stakeholders and should treat them fairly, while the managerial branch is based on the view that, in reality, companies will focus on important stakeholders who have larger power over them.

The normative branch addresses companies' moral obligation and responsibility towards their stakeholders. This branch assumes that "the interests of all stakeholders are of intrinsic value" or, in other words, "each group of stakeholders merits consideration for its own sake" (Donaldson and Preston 1995, 67). The normative branch asserts that organisations have "a moral obligation [to stakeholders], an obligation of stakeholder fairness, over and above that due other social actors simply by virtue of their being human" (Phillips 2003, 30). On this theoretical perspective, managerial relationships with stakeholders are grounded in a moral philosophy of responsibility and accountability to all stakeholders impacted by their business

activities, rather than a motivation to solely please those who are economically powerful stakeholders (Unerman 2007). Within the normative branch, all stakeholders should be treated fairly by companies regardless of their economic influence, and their interests should be considered equally (Hasnas 1998).

From the normative branch perspective, all stakeholders have equal rights to receive access to information about how they are affected by the organisation (Deegan 2012). Stakeholders' rights to corporate social and environmental information are justified by the accountability model proposed by Gray, Owen and Adams (1996, 38), which describes companies' accountability to stakeholders as "the duty to provide an account (by no means necessarily a financial account) or reckoning of those actions for which one is held responsible". Based on the accountability model, CSER should be driven by the moral obligation and responsibility of companies to their stakeholders, rather than the belief of furthering either the interests of the companies or the stakeholders' demand for information (Deegan 2009). The normative branch explains how organisations should act towards their stakeholders, but does not mean that companies' practices in reality coincide with the normative perspective, which cannot be tested by empirical observation (Deegan 2012).

The other branch, managerial stakeholder theory, has been widely employed in explaining companies' motivation underpinning CSER. Differing from the normative view that companies should treat all their stakeholders equally, the managerial branch theory subscribes to companies exerting more effort in managing relationships with more powerful stakeholders (Gray, Owen and Adams 1996). The power of these parties resides in their command of the resources needed for companies' success (Pfeffer and Salancik 1978). The more important the stakeholders, the higher the probability that the organisation would meet their expectations (Ullmann 1985; Roberts 1992). According to Clarkson (1995), primary stakeholders have more power than secondary stakeholders as the support of primary stakeholders is vital for a company's survival. Mitchell, Agle and Wood (1997) also perceived that companies pay different degrees of attention to different classes of stakeholders to achieve certain ends. They proposed the concept "stakeholder salience" which is defined as "the degree to which managers give priority to competing stakeholder claims" (Mitchell, Agle and Wood 1997, 878). The level of stakeholder salience is decided by the extent

of stakeholders' possession of three attributes: "the stakeholder's power to influence the firm"; "the legitimacy of the stakeholder's relationship with the firm"; and "the urgency of the stakeholder's claim on the firm" (Mitchell, Agle and Wood 1997, 584).

Companies are not self-contained or self-sufficient; instead, they must rely on their environment to acquire and maintain resources such as monetary and physical ones, information or social legitimacy through exchange relationships with external actors (Pfeffer and Salancik 1978). Therefore, an organisation cannot remain a going concern without the support of its stakeholders. As it is not the actual conduct of an organisation, but the generalised perception of its conduct that shapes its legitimacy (Suchman 1995), the transparency of companies' considerations of their social responsibilities to and concerns with stakeholders is critical in building sound relationships (Welcomer, Cochran and Gerde 2003). Information is a major element that can be used by organisations to manipulate or manage their stakeholders to win their support or distract their opposition (Gray, Owen and Adams 1996; Lindblom 1994). Within the perspective of the managerial branch, disclosure of particular information, including social and environmental information, is used by companies as a tool to win or maintain the support of powerful stakeholders (Gray, Owen and Adams 1996; Deegan and Blomquist 2006). CSER can be seen as a management strategy to pursue long-term good relations with powerful stakeholders who are vital to the success and survival of the company. It is worth mentioning that the power and expectation of stakeholders can change over time (Friedman and Miles 2002); therefore, organisations need to update their operation and disclosure strategies to manage their stakeholder relationships (Deegan 2009).

### 2.4.3 Legitimacy theory

Legitimacy theory aligns with the managerial branch of stakeholder theory in that the organisation is conceptualised as part of the broader social system wherein it and other groups within society impact upon each other (Deegan 2009). Legitimacy theory asserts that organisations continually seek to ensure their operations are within the bounds and norms of their respective societies, and that their practices are perceived as being legitimate by outside parties (Deegan 2009). Legitimacy theory only considers the society at large as a whole, not the unequal power of different stakeholders (Deegan 2009).

According to Suchman (1995, 574), "legitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions". Dowling and Pfeffer (1975, 122) describe legitimacy as

> a condition or status which exists when an entity's value system is congruent with the value system of the larger social system of which the entity is a part. When a disparity, actual or potential, exists between the two value systems, there is a threat to the entity's legitimacy.

Legitimacy is a relative concept applying to a specific time and place; it relates to the social system within which the organisation operates (Deegan 2009). Therefore, it can be argued that there are differences in the concept of legitimacy between developed countries and developing countries such as China.

Legitimacy theory is embedded in the notion that there exists a "social contract" (Donaldson 1982, 36) between the organisation and the society in which it resides. In this implied contract, the organisation agrees to perform socially desired actions in exchange of the approval of its objectives and ultimate survival in the society (Lehman 1983; Guthrie and Parker 1989). These socially desired actions are based on both explicit terms (legal requirements) and implicit terms (non-legislated social expectations) of the social contract (Gray, Owen and Adams 1996). If the organisation is perceived to breach its social contracts (i.e. to operate in an inacceptable manner or fail to meet the expectations of society), society will revoke the contract and the organisation will not be able to maintain its operation owing to losing society's support (Deegan 2009).

When there is incongruence between the perceived performance of an organisation and the expectations of society, a 'legitimacy gap' occurs (Lindblom 1994). Sethi (1978, cited in Deegan 2009) proposed two main reasons that cause a legitimacy gap:

1) Legitimacy is dynamic. The societal expectations on the organization have changed, but the organization fails to modify its perceived performance to meet the change.
2) A release of information about the company that is unknown to the public previously.

Legitimacy is "a resource upon which an organization depends for its survival. It is something that is conferred upon the organization by society, and it is something that

is desired or sought by the organization" (Deegan 2007, 128). Therefore, when a 'legitimacy gap' occurs, organisations need to find a way to reduce it and to repair their legitimacy.

Dowling and Pfeffer (1975, 127) proposed three strategies that a company can adopt to gain legitimacy:

1) Adapt its output, goals, and methods of operation to conform to prevailing definitions of legitimacy.
2) Attempt, through communication, to alter the definition of social legitimacy so that it conforms to the organization's present practices, output, and values.
3) Attempt, again through communication, to become identified with symbols, values, or institutions which have a strong base of social legitimacy.

Lindblom (1994) also suggested four legitimation strategies an organisation can adopt:

1) Changing its performance and activities, and educating or informing the relevant public of the changes.
2) Changing the perception of the relevant public without changing the actual behaviour.
3) Manipulating perception of the relevant public by deflecting their attention from the issue of concern to other related issues.
4) Changing the external expectation of its performance.

Moreover, Ashforth and Gibbs (1990) mentioned two categories of management techniques of legitimation:

1) Substantive management techniques, which involve real, material change in the organization's goals, structures, and practices.
2) Symbolic management techniques, which are about portraying the organization in a way in which its behaviours seem to be in step with social expectations and values, but without changing the real behaviours of the organisation.

Disclosure of information, including CSER, is very important to all legitimation strategies as it is the behaviour of a company as perceived by society that establishes its legitimacy (Nasi et al. 1997; Suchman 1995). An organisation may still stay legitimate when its practices dramatically diverge from social norms, as long as the divergence is not discovered by society (Suchman 1995). On the other hand, even if an organisation's actual performance is complying with societal expectation, the

failure to make disclosures to prove this will still threaten its legitimacy (Deegan 2007). Therefore, CSER can be an important legitimation strategy for companies to establish, maintain, extend or defend their legitimacy (Patten 1992; Cho, Roberts and Patten 2010; Buhr 1998; Islam and Deegan 2010).

### 2.4.4 Institutional theory

Institutional theory refers to how institutional environments shape, mediate and channel social choice (Hoffman 1999), and how these environments influence organisations within particular fields to take on similar characteristics and forms (Deegan 2012). It asserts that an organisation is immersed in an institutional environment within which the values, norms, rules and taken-for-granted assumptions define its social legitimacy (Scott and Meyer 1994; O'Connor 2011). Within institutional theory, legitimacy is "a condition reflecting culture alignment, normative support, or consonance with relevant rules or laws" (Scott 1995, 45). Institutional theory explains the tendency of CSER practice to converge in a particular context (Larrinaga-González 2007), for example, in Germany (Cormier, Magnan and Van Velthoven 2005).

From an institutional theory perspective, an organisation's options are perceived to be limited by a variety of external pressures, and it must respond to external expectations for its survival and success (Pfeffer and Salancik 1978). The various external pressures in one organisational field will lead to a convergence in forms and practices of organisations in that field (Larrinaga-González 2007; Oliver 1991). An organisational field consists of "those organizations that, in the aggregate, constitute a recognized area of institutional life: key suppliers, resource and product consumers, regulatory agencies, and other organizations that produce similar services or products" (DiMaggio and Powell 1983, 148). In practice, researchers have usually identified fields according to common technologies or common regulations, such as an industry in a particular geographic area (Larrinaga-González 2007).

DiMaggio and Powell (1983, 149) called the process of homogenisation of organisational structures in a particular environment "isomorphism", which is defined as "a constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions" (Hawley 1968, cited in DiMaggio and Powell 1983, 149). DiMaggio and Powell (1983) also proposed three types of

mechanism that are involved in institutional isomorphic change: coercive, mimetic and normative. Scott (1995) phrased these three elements differently as regulative, normative and cognitive structures, but with similar explanations.

Firstly, according to DiMaggio and Powell (1983), coercive isomorphism is based on political influence and legitimacy issues; it relates to "both formal and informal pressures exerted on organisations by other organisations upon which they are dependent and by cultural expectations in the society within which organisations function" (DiMaggio and Powell 1983, 150). These pressures can result from laws and regulations imposed by the state or the discipline of markets, such as health and safety regulations relating to manufacturers (DiMaggio and Powell 1983; Larrinaga-González 2007). In order to gain legitimacy and acquire or maintain resources, organisations are forced to comply with laws and to align their structures with the dominant rules (Larrinaga-González 2007). In the context of CSER, coercive mechanisms (e.g. reporting regulations, the enforcement of these regulations and the threat of promulgation of reporting regulations) could explain companies' CSER practice as a response to regulations or consumer pressure (Larrinaga-González 2007).

Secondly, mimetic isomorphism results from companies' imitating the practice of successful peers when they are facing uncertainty, such as unintelligible organisational technologies, ambiguous goals or symbolic uncertainty created by the environment (DiMaggio and Powell 1983). For example, Unerman and Bennett (2004) used mimetic isomorphism to explain the tendency for many organisations to adopt new policies and procedures which had been adopted by the leading organisations in their field. Larrinaga-González (2007) suggested that mimetic isomorphism causes sustainability reporting to be taken for granted in some countries or industries as companies tended to imitate their peers who were deemed to have achieved success in their reporting practices.

Thirdly, normative isomorphism stems from professionalisation. It is interpreted by DiMaggio and Powell (1983, 152) as "the collective struggle of members of an occupation to define the conditions and methods of their work, to control the production of producers and to establish a cognitive base and legitimation for their occupational autonomy". Normative mechanisms lead professions to act according to the values and norms perceived to be legitimate for their occupations. These values

and norms about professional and organisational behaviours are conveyed to managers and staff through formal education and professional networks, such as universities and professional training institutions (DiMaggio and Powell 1983). DiMaggio and Powell (1983) also suggested that normative isomorphism is encouraged by similar standards used in the filtering of personnel in the recruitment process by companies in an organisational field. Their explanation is that managers and professionals with similar academic backgrounds and attributes tend to view problems and approach decisions in a similar way; in addition, personnel movement among companies within the same industry is quite common.

### 2.4.5 Summary of the three theories

Stakeholder theory, legitimacy theory and institutional theory are widely invoked in explaining companies' motivations towards CSER. As mentioned in subsection 2.3.1, these three theories are all systems-oriented theories; although some overlaps exist between these three theories, they are also complementary.

Stakeholder theory involves the impacts on an organisation from particular stakeholder groups, while legitimacy theory refers to the perceptions of society, in general, of an organisation's behaviour (Deegan and Blomquist 2006). Legitimacy theory explains how organisations adopt particular strategies to gain, maintain or restore their legitimacy, while institutional theory discusses legitimacy at a higher level regarding how organisations adopt particular organisational forms to stay legitimate (Deegan 2009). Institutional theory provides a complementary perspective to legitimacy and stakeholder theories in explaining how organisations respond to changing social expectations (Deegan 2009).

### 2.5 CSER RESEARCH IN CHINA

Most studies on CSER have been conducted in Western developed countries, but comparatively little research has been done in emerging and developing economies (Khan, Muttakin and Siddiqui 2013; Belal and Cooper 2011; Amran and Haniffa 2011; Islam and Deegan 2008), and especially in China (Belal 2008). Among the sparse studies written in English regarding CSER in China (Du and Gray 2013; Rowe and Guthrie 2009), a proportion of them are normative research (e.g. Li, Xiong and Xu 2008; Li 2004) and descriptive in nature (e.g. Gao 2011; Du and Gray 2013), while

the empirical studies are dominated by the use of the quantitative method to analyse the determinants of disclosure level. Some of these empirical studies are summarised in Table 2.3.

The factors influencing the level of social and environmental disclosures found in most studies in China include company size, environmental sensitivity, ownership and profitability. For example, Liu and Anbumozhi (2009) investigated the environmental disclosures of 175 Chinese listed companies in their annual reports, separate environmental reports, CSR reports and company websites. Their findings suggested that larger companies and companies in environmentally sensitive industries had higher disclosure levels, which was quantified by a disclosure index with variable weights assigned to different types of information. A similar study by Zeng et al. (2010) examined the environmental disclosures of 871 listed manufacturing companies in China according to their annual reports and information in the China Stock Market & Accounting Research (CSMAR) database, and received the consistent results that disclosure level was positively correlated to company size and environmental sensitivity. Kuo, Yeh and Yu's study (2012) on 529 CSR reports released by companies in China also confirmed that companies in environmentally sensitive industries disclosed more information. In addition, they found that state-owned enterprises (SOEs) had a significantly higher disclosure level, which was also in line with Meng, Zeng and Tam's (2013) study's finding on the environmental disclosures in 2,360 annual reports of listed companies in China. A similar conclusion was drawn by Weber (2014), who found that government-controlled companies had higher reporting frequency in his study on environmental, social and governance reporting of 75 listed companies in China. In addition, Lu and Abeysekera (2014) analysed the social and environmental disclosures of 100 companies on the 2008 Chinese Stock-listed Firms' Social Responsibility Ranking List according to their annual reports and CSR reports, and concluded that disclosure level was positively associated with company size, profitability and high-profile industry classification, and negatively correlated to concentrated ownership. Furthermore, the findings of Marquis and Qian's (2014) study on all CSR reports issued by publicly listed Chinese companies during the period 2006–2009 indicated that factors such as company size, profitability and media exposure all had a positive influence on the probability of companies issuing

CSR reports, while companies with a CEO (Chief Executive Officer) as a government official intended to disclose more substantive CSR information.

Some of these empirical studies also attempted to infer the motive behind CSER according to their conclusion of the influencing factors. For example, Liu and Anbumozhi (2009) used environmental sensitivity as a proxy for the pressure from government, and explained that the government, as a powerful stakeholder, had a large influence on environmental disclosures in China. Meanwhile, they also inferred that the pressure on companies' environmental reporting from other primary stakeholders such as shareholders and creditors was weak. Zeng et al. (2010, 1144) suggested a motive for environmental reporting was to alleviate the government's concerns, based on their finding that "[companies'] environmental protection policies, strategies and goals" and the "influence of government environmental protection policy" were two disclosure components with the highest disclosure scores. Similarly, other studies (e.g. Gao 2011; Meng, Zeng and Tam 2013; Dong, Burritt and Qian 2014) also concluded that the government had a large positive influence on CSER based on the findings that SOEs had higher disclosure levels. However, an inconsistent result was received by Lu and Abeysekera (2014) who failed to find that central SOEs disclosed more social and environmental information, concluding that pressure on CSER from stakeholders in general was weak in China, with the exception of that from shareholders. The influence of shareholders on CSER was inferred from a negative correlation between the disclosure level and ownership concentration. Lu and Abeysekera's (2014) explanation was that companies with less concentrated ownership had more variable shareholders with higher demands for relevant information, which would drive companies to make more disclosures if shareholders had influence.

Such quantitative studies can only indirectly and partly infer companies' motivations behind CSER (Belal and Momin 2009). Only a very few studies adopted the interview method to directly explore the motives behind companies' social and environmental disclosures of which Rowe and Guthrie's (2010) study is an example. They interviewed senior managers from 15 companies in China, and identified that coercive government involvement was the major driver of companies' environmental initiatives and reporting. Similarly, as with CSER studies in English, according to a recent review by Guan and Noronha (2013), the majority of CSER research by Chinese academia is

also purely descriptive and the limited empirical Chinese studies are dominated by quantitative content analysis.

## 2.6 RESEARCH GAPS

The literature review in the previous sections indicates four gaps in current CSER research, which are:

1) Lack of field-based qualitative studies.
2) Lack of studies in developing countries.
3) Lack of studies exploring the barriers of CSER.
4) Lack of studies on both social and environmental disclosures of companies.

First, the empirical studies on CSER are numerically dominated by quantitative content analysis that addresses the statistical relationship between disclosure levels and influencing factors (Thomson 2007; Belal and Momin 2009). The majority of the studies that explore driving forces behind CSER are desk-based and only provide indirect explanations by inferring companies' motives from the connections between disclosure levels and external factors, while only a small body of research directly explores the motives by the interview method (Belal and Momin 2009; Owen 2008).

Second, most studies on CSER focus on Western developed countries. Comparatively little research has been done on emerging and developing economies (Islam and Deegan 2008; Alon et al. 2010; Belal and Cooper 2011; Amran and Haniffa 2011; Khan, Muttakin and Siddiqui 2013), and especially on China (Lu and Abeysekera 2014; Du and Gray 2013). As the contexts of different countries have a large influence on CSER (Andrew et al. 1989; Guthrie and Parker 1990; Williams and Ho Wern Pei 1999; Adams and Kuasirikun 2000; Adams, Hill and Roberts 1998), Western approaches may fail to explain the CSER phenomenon in Asia's emerging and developing countries (Jamali and Mirshak 2007; Baughn, Bodie and McIntosh 2007; Belal and Momin 2009), for example, in China (Gao 2011).

Third, most studies of managerial perceptions of CSER only investigate the motives behind CSER with little known about the barriers. Gray and Bebbington (2001, 242) listed some possible reasons for non-disclosure of environmental information:

- *No need/motivation to do so.*
- *Wait and see.*
- *Cost.*
- *Data availability (and related costs).*
- *Secrecy.*
- *Absence of demand for the information.*
- *Absence of a legal requirement.*
- *Never thought about it.*
- *Prioritising areas for disclosure.*

Very few empirical studies have examined the barriers to CSER. For example, in Canada, Buhr (2002) conducted case studies of two large pulp and paper companies to investigate their initiation of environmental reports, and revealed that the two disincentives perceived by the management were increasing cost and insufficient support. In Australia, Stubbs, Higgins and Milne (2013) interviewed managers from 23 large ASX-listed companies not issuing sustainability reports, discovering that the barriers to companies producing sustainability reports were lack of stakeholder pressure; no perceived benefits; the belief that sustainability reporting is a 'nice-to-do, not a must-do'; companies' compliance culture; and companies having a structure and/or culture that did not encourage reporting. In the UK, Solomon and Lewis (2002)'s questionnaire study revealed that the disincentives of corporate environmental reporting were lack of awareness, lack of legal requirement and reluctance to report sensitive information. In Bangladesh, Belal and Cooper (2011) interviewed 23 senior managers of listed companies and discovered that the reasons for companies resisting CSR reporting were lack of resources, the profit imperative, lack of legal requirements, lack of knowledge/awareness, poor performance and the fear of bad publicity. In China, Rowe and Guthrie's (2009) interview-based study with 15 senior managers revealed that the barriers to environmental reporting were lack of legal requirement, perceived lack of stakeholder demand, competitors not reporting, no environmental impact, costs outweighed benefits, not being part of executive performance and secrecy.

Four, many studies investigated only corporate environmental disclosure and not social disclosure, for example, Patten (1992); Gray et al. (1995); Deegan and Rankin

(1996); Deegan and Gordon (1996); Walden and Schwartz (1997); Buhr (1998); Brown and Deegan (1998); Hutchings and Taylor (2000); Wilmshurst and Frost (2000); Bewley and Li (2000); Solomon and Lewis (2002); Larrinaga-González et al. 2001); Harvey and Schaefer (2001); Patten (2002); O'Donovan (2002); Magness (2006); Deegan and Blomquist (2006); Cho and Patten (2007); Liu and Anbumozhi (2009); Haddock-Fraser and Tourelle (2010); Cho, Roberts and Patten (2010); and Rowe and Guthrie (2010, 2009).

In summary, an important gap in CSER research is the lack of engagement-based studies that directly explore managerial perceptions of the enablers of and barriers to CSER via interviews in China. As addressed by de Villiers and Alexander (2014), the form and volume of CSER content will be less and less indicative of management's real motivation for CSR reporting, because companies are inclined to shape their reporting structure and volume to fit the same global reporting templates such as GRI due to the institutionalized reporting patterns.

Instead, it is imperative to explore senior managers' perceptions of CSER (Khan 2010) because they play a central role in influencing the CSR and CSER practices of their companies. Rather than the mainstream testing of hypotheses applying content analysis to the conveniently sourced secondary data from CSR or annual reports, an engagement-based field research with senior managers to understand their motivation for CSER would not only bridge a significant gap in CSER research, but also be more meaningful in improving the sparse CSER practice in China.

Therefore, this study adopts the qualitative method to explore the CSER phenomenon in China from a senior manager's perspective via interviews. It investigates not only the motives for but also the barriers to companies in adopting CSER. Moreover, it covers both social and environmental disclosures of companies in China. This study has a significant contribution to make to the CSER literature in terms of the emic knowledge of the CSER phenomenon that it provides in the context of the largest developing country, China.

## 2.7 SUMMARY

This chapter has provided a brief review of CSER research, including the definition of CSER, main research themes of empirical studies, widely adopted theoretical

perspectives and CSER research in China. Near the end of the chapter, some important gaps in CSER research were highlighted. This engagement-based study seeks to fill these gaps by exploring managerial perceptions of the drivers of and barriers to CSER in China.

While this chapter has presented the literature background of CSER research, the following chapter introduces the socio-economic and institutional contexts of China and the real situation of CSER practice in China.

**Table 2.1: Examples of studies on determinants of CSER disclosure level**

| Articles | Countries &Samples | Measurement of Disclosure Level & Source of CSER Disclosure | Determinants of Disclosure Level* (Corporate Characteristic Factors) | Other Influence Factors* (Corporate Governance & Country Difference ) |
|---|---|---|---|---|
| Trotman and Bradley (1981) | 207 Australian listed companies | Annual reports<br><br>Line counting<br><br>CSR disclosure | Size (+)<br><br>Systematic risk (+) | Management decision horizon long term (+) |
| Cowen, Ferreri and Parker (1987) | 134 US companies from Fortune 500 in 10 different industries | Annual reports<br><br>Page counting<br><br>CSR disclosure | Size (+)<br><br>Profitability (0)<br><br>Industry difference | Existence of CSR committee (+) |
| Andrew et al. (1989) | 119 publicly listed companies in Malaysia and Singapore<br><br>(also compared with the findings of Guthrie and Parker's [1990] study) | Annual reports<br><br>Themes, forms and page counting<br><br>Social disclosure | Size (+) | Country difference |
| Guthrie and Parker (1990) | 50 largest listed companies in the UK, the USA and Australia | Annual reports<br><br>Themes, forms and page counting; location in the reports<br><br>Social disclosure | | Country difference |

| | | | | |
|---|---|---|---|---|
| Yamagami and Kokubu (1991) | 49 largest international companies included in Fortune 500 in Japan | Voluntary reports<br><br>Statistics of disclosure categories<br><br>Social disclosure | Industry difference | |
| Roberts (1992) | 80 Fortune 500 companies | Companies' disclosure level published by Council on Economic Priorities (CEP)<br><br>CSR disclosure | Return on equity (ROE) growth in prior period (+)<br><br>Company age (+)<br><br>Debt to equity ratio (+)<br><br>High-profile industries (+)<br><br>Systematic risk (beta) (-) | Corporate sponsorship of a philanthropic foundation (+)<br><br>Size of the corporation's public affairs department (+) |
| Deegan and Rankin (1996) | 197 Australian companies | Annual reports<br><br>Word counting<br><br>Environmental disclosure | Company size (+)<br><br>Industry sensitivity (+) | |
| Gamble et al. (1996) | 276 companies in 27 countries | Annual reports<br><br>Statistics of disclosure themes<br><br>Environmental disclosure | | Country difference |
| Hackston and Milne (1996) | 47 largest listed companies in New Zealand | Annual reports<br><br>Sentence and page counting | Company size (+)<br><br>High-profile industries (+) | |

| | | Social and environmental disclosures | Profitability (0) | |
|---|---|---|---|---|
| Adams, Hill and Roberts (1998) | 150 companies from six European countries | Annual reports<br><br>Theme coding, page counting, information forms (qualitative or quantitative)<br><br>Social reporting | Size (+)<br><br>Industry sensitivity (+) | Country difference |
| Brown and Deegan (1998) | 27 companies in nine industries in Australia | Annual report<br><br>Word counting<br><br>Environmental disclosure | | Media coverage (+) |
| Neu, Warsame and Pedwell (1998) | 33 Canadian public companies in four environmentally sensitive industries: | Annual reports<br><br>Word counting<br><br>Environmental disclosure | Profitability (-)<br><br>Debit ratio (0) | Number of media articles about environmental fines by the government (+) |
| Williams (1999) | 356 listed companies in seven Asian Pacific nations | Annual reports<br><br>Sentence counting<br><br>Social and environmental disclosure | | Country difference |
| Bewley and Li (2000) | 188 manufacturing firms in Canada | Annual reports<br><br>Content ranking with Wiseman Index<br><br>Environmental disclosure | Pollution propensity industry (+)<br><br>Company size (+)<br><br>Return on assets (ROA) (0) | Number of media articles pertaining to the firm preceding corporate environmental disclosure (+) |

53

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|---|---|---|---|---|
| Campbell (2000) | A retailer (Marks and Spencer) in the UK | Annual reports<br><br>Word and page counting<br><br>Social disclosure | | Senior officers' succession |
| Adams and Kuasirikun (2000) | 20 largest UK and German chemical and pharmaceutical firms | Annual reports<br><br>Word and page counting<br><br>Ethical issues disclosure | | Country difference |
| Buhr and Freedman (2001) | 56 pairs of comparable-sized US and Canadian companies in 1988 and 68 pairs in 1994 | Annual reports, 10-K/AIF reports and environmental reports<br><br>Counting categories disclosed<br><br>Environmental disclosure | | Country difference |
| Ding (2002) | 38 French listed companies and 29 Chinese listed companies | Annual reports<br><br>Counting categories disclosed<br><br>Annual report information disclosure | | Country difference |
| Holland and Foo (2003) | 20 large listed companies in sensitive industries in UK and 20 in USA | Annual reports<br><br>Sentence counting<br><br>Environmental disclosure | | Country difference |

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|---|---|---|---|---|
| Kolk (2003) | 222 Global 250 companies | Sustainability reports and annual reports<br><br>Counting topics disclosed<br><br>Sustainability reporting | | Country difference |
| Cormier, Magnan and Van Velthoven (2005) | 55 large non-financial firms in Germany | Annual reports and environmental reports<br><br>Scoring disclosed items<br><br>Environmental disclosure | Company size (+)<br><br>Fixed asset age (+)<br><br>Heavy industry (+)<br><br>Company age (+)<br><br>Systematic risk (beta) (+)<br><br>Leverage (0)<br><br>Profitability (0) | Concentrated ownership (-)<br><br>Extensive foreign ownership (-) |
| Haniffa and Cooke (2005) | 139 non-financial listed companies in Malaysia | Annual reports<br><br>Index and word counting<br><br>Social reporting | Company size (+)<br><br>Profitability (+)<br><br>Industry type<br><br>Debt to equity ratio (0) | Proportion of non-executive directors on the board (+)<br><br>Proportion of Malay directors to total directors on the board (+)<br>Multiple directorships (+)<br><br>Foreign share ownership (+)<br><br>Multiple listings (+) |

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|---|---|---|---|---|
| Smith, Adhikari and Tondkar (2005) | 32 Norwegian/Danish companies & 26 US companies in the electric power generation industry | Annual reports<br><br>Word, sentence and page counting<br><br>Social disclosure | | Country difference |
| Gao, Heravi and Xiao (2005) | 33 listed companies in Hong Kong | Annual reports<br><br>Word counting<br><br>Social and environmental disclosure | Company size (+)<br><br>Industry difference | |
| Ho and Taylor (2007) | 50 of the largest US and Japanese companies | Annual reports, stand-alone reports and website reports<br><br>Index<br><br>Triple bottom line (TBL) reporting | Company size (+)<br><br>Profitability (-)<br><br>Liquidity (-)<br><br>Manufacturing industry (+) | Country difference |
| Smith, Yahya and Amiruddin (2007) | 40 listed companies in Malaysia | Annual reports<br><br>Index<br><br>Environmental disclosure | Profitability (-)<br><br>Industry membership (0)<br><br>Company size (0)<br><br>Liquidity (0)<br><br>Debt ratio (0)<br><br>Share price volatility (0) | |

| | | | | |
|---|---|---|---|---|
| Rashid and Lodh (2008) | 21 listed companies in Bangladesh | Annual reports<br><br>Index<br><br>Social disclosures | Profitability (+)<br><br>Debt ratio (+) | Concentrated ownership (-)<br><br>External independent directors (+) |
| Branco and Rodrigues (2008) | 49 listed companies in Portugal | Annual reports and information on corporate web pages<br><br>Statistics of disclosure categories<br><br>CSR disclosure | Company size (+)<br><br>Profitability (+)<br><br>Leverage (-) | Media exposure (+) |
| Reverte (2009) | Largest 35 listed firms in Spain | CSR disclosure ratings from the Observatory on CSR (an association that integrates civil society, NGOs, trade unions and consumer organisations)<br><br>CSR disclosure | Size (+)<br><br>Industry sensitivity (+)<br><br>Profitability (0)<br><br>Leverage (0) | Media exposure (+) |
| Tagesson et al. (2009) | 169 Swedish listed corporations | Corporate websites<br><br>Index (unweighted-scoring)<br><br>Social and environmental disclosures | Size (+)<br><br>Profitability (+)<br><br>Consumer goods industry (+) | State-owned corporations (+) |

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|---|---|---|---|---|
| Khan (2010) | 30 private commercial banks in Bangladesh | Annual reports<br><br>Index, word counting<br><br>CSR reporting | Size (+)<br><br>Profitability (+)<br><br>Debt to equity ratio (0) | Proportion of non-executive directors (+)<br><br>Proportion of foreign nationals on the board (+)<br><br>Women's empowerment at the executive level (0)<br><br>Proportion of women directors (0) |
| Gamerschlag, Möller and Verbeeten (2011) | 130 largest listed German companies | Annual reports and CSR reports<br><br>Index, word counting<br><br>CSR disclosure | Size (+)<br><br>Industry difference<br><br>Polluting industries (+): only environmental disclosure<br><br>Profitability (+): only environmental disclosure | Dispersed shareholder ownership structure (+)<br><br>US cross-listing (+) |

Notes: * (+): positive association with disclosure level; (-): negative association with disclosure level; (0): no significant impact with disclosure level.

**Table 2.2: Examples of studies on motives behind CSER**

| Primary Motives | Categories of Study | Studies | Topic and Sample | Methods | Primary Findings | Theoretical Perspectives |
|---|---|---|---|---|---|---|
| **To maintain legitimacy** | Effect of a single event | Patten (1992) | Environmental disclosure<br><br>21 publicly traded Fortune 500 companies in petroleum industry<br><br>Alaskan Exxon Valdez oil spill event in 1989 | Quantitative content analysis: comparing disclosure levels in annual reports of 1988 and 1989 | Companies in petroleum industry disclosed much more environmental information after the event. | Legitimacy theory |
| **To maintain legitimacy** | Effect of a single event | Walden and Schwartz (1997) | Environmental disclosure<br><br>53 Fortune 500 companies in four industries<br><br>Alaskan Exxon Valdez oil spill event in 1989 | Quantitative content analysis: comparing quantity and quality of environmental disclosure in annual reports of 1988, 1989 and 1990 | Companies increased their environmental disclosure level after the accident in response to public policy pressure for their self-interest. | N/A |
| **To maintain legitimacy** | Effect of a single event | Hutchings and Taylor (2000) | Environmental disclosure<br><br>Mining companies operating in Australia and Asia<br><br>Ok Tedi River pollution lawsuit against BHP Ltd | Quantitative content analysis: comparing the disclosure level in annual reports before and after the event | Companies in mining industry disclosed more environmental information after the event. | Legitimacy theory |
| **To maintain legitimacy** | Effect of a single event | Magness (2006) | Environmental disclosure<br><br>44 publicly traded gold mining companies in Canada | Quantitative content analysis: comparing environmental disclosure in annual reports before and after the event | Companies that maintain a stronger media presence disclosed more environmental information after the accident. | Legitimacy theory |

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|---|---|---|---|---|---|
| | | | Omai mine accident in 1995: overseas outsourced project | | Companies with plans to access external financial markets and larger-sized companies disclosed more environmental information. | |
| **To maintain legitimacy** | Comparison of the disclosure among firms during the same period | Deegan and Rankin (1996) | Environmental disclosure 20 Australian companies | Quantitative content analysis: disclosure in annual reports | Companies that had been prosecuted disclosed significantly more positive environmental information. | Legitimacy theory |
| **To maintain legitimacy** | Comparison of the disclosure among firms during the same period | Patten (2002) | Environmental disclosure 131 US companies | Quantitative content analysis: disclosure in annual reports | Companies with poorer environmental performance made more disclosures. | Legitimacy theory |
| **To maintain legitimacy** | Comparison of the disclosure among firms during the same period | Cho and Patten (2007) | Environmental disclosure 100 companies listed in the 2002 ratings of corporate social and environmental performance | Quantitative content analysis: disclosure in 10-K reports | Companies with poorer environmental performance and in environmentally sensitive industries made more environmental disclosures. | Legitimacy theory |
| **To maintain legitimacy** | Longitudinal case study | Buhr (1998) | Environmental disclosure Falconbridge, an international resource company in Canada | Quantitative content analysis: comparing the environmental disclosure volume in its annual reports before and after its critical environmental issues from 1964–1991 Interviews: with company and government representatives | Disclosure volume increased after critical environmental events. | Legitimacy theory Political economy theory |

| To maintain legitimacy | Longitudinal case study | Deegan, Rankin and Tobin (2002) | Social and environmental disclosure<br><br>BHP Ltd in Australia | Quantitative content analysis: disclosure in1983–1997 annual reports | More social and environmental information was disclosed when the level of media coverage was higher and when more unfavourable media articles was published. | Legitimacy theory |
|---|---|---|---|---|---|---|
| To maintain legitimacy | Longitudinal case study | Islam and Deegan (2010) | Social and environmental disclosure<br><br>Two multinational clothing and sportswear companies: H&M and Nike | Quantitative content analysis: comparing social and environmental information disclosed in 1988–2006 annual reports | A significant positive correlation was found between the disclosure level and the number of negative news items. | Legitimacy theory<br><br>Media agenda-setting theory |
| To maintain legitimacy | Longitudinal case study | Tilling and Tilt (2010) | Social and environmental disclosure<br><br>Rothmans Holdings Ltd, a publicly listed Australian tobacco corporation | Quantitative content analysis: comparing social and environmental information disclosed in 1956–1999 annual reports | A significant positive correlation was found between the disclosure level and the number of articles relating to health. | Legitimacy theory |
| To maintain legitimacy | Interview | O'Donovan (2002) | Three large Australian listed companies | Qualitative: interviews with senior managers | Certain legitimation tactics in the annual report disclosure approach are chosen by companies in response to a threatening environmental issue according to the perceived significance of the issue and the purpose of gaining, maintaining or repairing legitimacy. | Legitimacy theory |
| To maintain legitimacy | Interview | Larrinaga-González et al. (2001) | Environmental disclosure<br><br>Nine companies in Spain | Qualitative: interviews with corporate environmental officers/managers/executives | Environmental disclosure was adopted to negotiate and control the environmental agenda, | Legitimacy theory |

| | | | | | driven by fear and compulsory and non-compulsory pressure. | Political economy theory |
|---|---|---|---|---|---|---|
| **To manage stakeholders** | Government and regulators | Harvey and Schaefer (2001) | Environmental performance<br><br>Six UK water and electricity companies | Qualitative: interviews with senior managers and staff | Government and regulators had significant influence on companies' environmental reporting and practice.<br><br>Customers and the general public were also considered to be influential. | Stakeholder theory |
| **To manage stakeholders** | Shareholders | Wilmshurst and Frost (2000) | Environmental disclosure<br><br>62 listed companies in eight environmentally sensitive industries in Australia | Mixed method/mail survey<br><br>CFOs or senior managers were required to rate on a ranking-order Likert scale the relative importance of 11 possible influential factors on their motivations to adopt environmental reporting | Reporting was mostly driven by shareholders' information needs and also by legal obligation, 'due diligence' requirements and community concerns. | Legitimacy theory |
| **To manage stakeholders** | Shareholders and employees | Lindorff and Peck (2010) | CSR activities<br><br>10 leaders of larger financial institutions in Australia | Qualitative: interviews with 10 leaders | Three critical drivers for leaders to promote CSR were the leader's role in responding to the mutual interest of the business and society, the reputation of companies and, particularly, the pressure from shareholders and employees. | Stakeholder theory |
| **To manage stakeholders** | Customers | Branco and Rodrigues (2006) | CSR disclosure<br><br>15 Portuguese banks | Quantitative content analysis of social responsibility disclosure on their annual reports and on the internet | Banks with a higher visibility among customers disclosed more social and environmental information. | Legitimacy theory |

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|---|---|---|---|---|---|
| **To manage stakeholders** | Customers | Islam and Deegan (2008) | CSR disclosure<br><br>12 export-oriented garment manufacturers in Bangladesh | Quantitative content analysis of CSR information in 1987–2005 annual reports<br><br>Qualitative: interviews with senior managers | Multinational buying companies, as customers, created the change in the CSR reporting of these manufacturers. | Stakeholder theory<br><br>Legitimacy theory<br><br>Institutional theory |
| **To manage stakeholders** | Customers | Haddock-Fraser and Tourelle (2010) | Environmental actives and reporting<br><br>UK FTSE 100 companies in nine industries | Quantitative content analysis of environmental reports and CSR reports on companies' websites | Companies that supplied goods or services directly to customers adopted more proactive environmental reporting. | Legitimacy theory |
| **To manage stakeholders** | NGO | Deegan and Blomquist (2006) | Environmental disclosure<br><br>Key member companies in the Minerals Council of Australia | Qualitative: interviews with representatives from six companies and a project leader from an NGO (WWF) | Mining companies reacted to WWF's initiatives by improving their reporting behaviour. | Legitimacy theory<br><br>Stakeholder theory |
| **To manage stakeholders & To manage corporate image** | Environmental lobby groups | Deegan and Gordon (1996) | Environmental disclosure<br><br>197 Australian companies | Quantitative content analysis: environmental disclosure in annual reports<br><br>Questionnaires to lobby groups | Companies in environmentally sensitive industries had a higher environmental disclosure level<br><br>Environmental disclosure level was positively associated with societal concern and environmental lobby groups' concern.<br><br>Environmental disclosure was self-laudatory with little or no negative news disclosure by all the sample companies. | Legitimacy theory |

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|---|---|---|---|---|---|---|
| **To manage stakeholders & To manage corporate image** | International buyers, government and employees | Belal and Owen (2007) | Social reporting

23 Bangladeshi companies | Qualitative: interviews with senior managers | CSR disclosure was driven by the motives of managing economically powerful stakeholder groups and improving corporate image.

Domestic companies competing in the export market were primarily under the pressure of meeting the demands from international buyers.

Multinational companies (MNCs) were driven by desires to maintain good relations with government and to attract employees. | N/A |
| **To manage corporate image** | | Adams (2002) | 7 large multinational companies (MNCs) in the chemical and pharmaceutical sectors in the UK and Germany | Qualitative: interviews with relevant personnel in the companies | The primary motive was to enhance corporate image and credibility with stakeholders. The disclosure was also driven by public pressure.

An obstacle to disclosure was concern about unknown or negative public reaction to the disclosure of certain issues such as fines, so only a very small amount of bad news was disclosed. | Legitimacy theory

Stakeholder theory

Political economy theory |

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|---|---|---|---|---|---|
| **To manage corporate image** | Solomon and Lewis (2002) | Environmental disclosure

Opinions of three sub-sample groups in the UK: (1) companies, (2) normative group and (3) interested group | Questionnaires | "To improve corporate image" was ranked the most important reason for corporate environmental reporting by normative and interested groups, and ranked second by the companies, after "To acknowledge social responsibility". | Legitimacy theory

Stakeholder theory

Political economy theory |
| **To manage corporate image & To maintain legitimacy** | Cho, Roberts and Patten (2010) | Environmental disclosure

195 companies listed in the 2002 ratings of corporate social and environmental performance | Quantitative content analysis of 10-K reports | Companies with poor environmental performance used more optimistic language and verbal tone to bias the message presented in their environmental disclosure. Environmental disclosure was used as a tool to manage stakeholder impressions of their performance. | N/A |

**Table 2.3: Examples of empirical studies in China**

| Study | Research Topic | Sample | Method | Main Findings | Theoretical Perspectives |
|---|---|---|---|---|---|
| Liu and Anbumozhi (2009) | Environmental disclosure | 175 Chinese listed companies<br><br>Environmental information disclosed in annual reports, separate environmental or CSR reports and company websites | Quantitative content analysis<br><br>Index method<br><br>Disclosed scoring: unequal weights assigned to different types of information | • Environmental sensitivity and company size were two positive influence factors on disclosure level.<br>• Companies located in more economically developed regions or with better economic performance disclosed more of certain kinds of environmental information.<br>• Disclosure was mainly driven by the motive to alleviate the **government**'s concern.<br>• Weak pressure was experienced from stakeholders who expected the government to disclose the information. | Stakeholder theory |
| Zeng et al. (2010) | Environmental disclosure | 871 listed manufacturing companies in China<br><br>Environmental information disclosed in annual report or CSMAR database from 2005–2008 | Quantitative content analysis<br><br>Index method<br><br>Disclosed scoring: unequal weights assigned to different types of information | • Environmental sensitivity and company size were two positive influence factors on disclosure level.<br>• Companies with foreign legal person shares and state shares had higher disclosure level.<br>• An inverse relationship existed between marketisation level and disclosure level.<br>• The components with highest disclosure scores were "firm's environmental protection policies, strategies and goals" and "influence of government policy of environmental protection", which indicated one motive of environmental reporting was to alleviate the **government**'s concerns. | N/A |
| Rowe and Guthrie (2010) | Environmental initiatives and disclosure | Senior managers from 15 companies in China | Semi-structured **interview** | • Coercive **government** institutional involvement was seen as the major driver of corporate environmental initiatives and reporting. | Institutional theory |

| Gao (2011) | CSER | 81 listed companies in China<br><br>CSR reports issued in 2008 | Quantitative content analysis<br><br>Descriptive statistics | • CSR report was the most adopted name for the stand-alone reports on CSER in China.<br>• Companies preferred to follow domestic guidelines rather than international ones.<br>• Most companies held a positive attitude to sharing CSR and none hold a negative attitude.<br>• SOEs had higher propensity to address social issues, many of which were "political slogans" of the **government.**<br>• SOEs focused more on the interests of charity/society, while non-SOEs paid more attention to the interests of shareholders.<br>• Industrial firms addressed more stakeholders' interests than service firms did.<br>• CSR reporting was at an early stage in China. | N/A |
| --- | --- | --- | --- | --- | --- |
| Kuo, Yeh and Yu (2012) | CSER | 529 CSR reports released by companies in China (excluding foreign companies and companies in banking and insurance industry) during 2008–2009 | Quantitative content analysis<br><br>Rating scale built based on the Expert Assessment System for the Golden Bee CSR China Honour Roll | • 41.4% of the companies did not disclose any information on the 42 CSR activities in the assessment system.<br>• Companies in environmentally sensitive industries and SOEs had significantly higher disclosure scores. They disclosed more on environmental protection issues which were of wide concern to the international community and Chinese **government.** | Stakeholder theory |
| Meng, Zeng and Tam (2013) | Environmental disclosure | Annual reports published by listed companies in China:<br><br>792 reports in 2006<br><br>784 reports in 2007<br><br>784 reports in 2008 | Quantitative content analysis<br><br>Index method<br><br>Disclosed scoring: unequal weights assigned to different types of information | • Average score was 1.126 out of 10 which indicated that the environmental disclosure level was quite low.<br>• Proportion of companies with environmental disclosure increased.<br>• SOEs had higher disclosure level to meet the expectation of the **government**, indicating ownership was an important institutional influence factor.<br>• Complex relationship existed between companies' economic performance and disclosure level. | Legitimacy theory<br><br>Impression management theory |

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|---|---|---|---|---|---|
| Li, Zhang and Foo (2013) | CSER | 339 listed companies in China under mandatory regulations to publish CSR reports<br><br>613 CSR reports submitted during period 2009–2010 | Quantitative content analysis<br><br>CSR reports quality scores<br><br>Expert scoring methodology | • A large divergence existed in terms of quality of CSR reports.<br>• Quality of CSR reports was positively associated with company size, financial leverage and shareholders' concentration (of ownership).<br>• Quality of CSR reports was not associated with profitability or state ownership.<br>• Presence of independent directors had weak negative impact on quality of CSR reports.<br>• Companies in more economically developed zones were more likely to produce CSR reports of higher quality. | N/A |
| Lu and Abeysekera (2014) | CSER | All 100 companies in the 2008 Chinese Stock-listed Firms' Social Responsibility Ranking List<br><br>Annual reports and CSR reports in 2008 | Quantitative content analysis<br><br>Three-dimensional social and environmental disclosure index with quality and quantity measures | • CSER level was significantly and positively associated with company size, profitability and high-profile industry classification.<br>• CSER level was negatively associated with shareholder-concentrated ownership indicating shareholders' influence on CSER level.<br>• The pressure for CSER from stakeholders, including the government and auditors was generally weak.<br>• Environmental disclosure level was negatively associated with financial leverage indicating creditors' influence on environmental disclosure level. | Stakeholder theory<br><br>Legitimacy theory |
| Dong, Burritt and Qian (2014) | CSER | All mining and minerals companies listed in China<br><br>176 corporate annual and CSR reports produced during the period 2007–2010 | Quantitative content analysis<br><br>Index method<br><br>Disclosed scoring: unequal weights assigned to different types of information | • **Government** (measured by percentage of government's shareholding); international customers (measured by sales revenue to international market) had significantly positive impact on disclosure level.<br>• Mining industry associations (measured by industry membership), local communities (measured by donations to local community); employees (measured by employee contribution rate) had no influence on disclosure. | Stakeholder theory |

| | | | | | |
|---|---|---|---|---|---|
| Marquis and Qian (2014) | CSER | All CSR reports issued by publicly listed Chinese companies between 2006 and 2009

Approximately 1,600 publicly listed companies and 5,660 firm-year observations | Quantitative content analysis

Adopted CSR reporting substantiveness rating by RKS, an independent CSR rating agency | • Company size, required discloser, reporting experience, media exposure, ROA and slack resources had a positive influence on the probability of issuing a CSR report.
• Companies with a CEO who was a **government** official and companies located in more institutionally developed regions produced more substantive CSR reporting. | Institutional theory |
| Weber (2014) | Environmental, social and governance (ESG) reporting | 75 companies listed on the Shanghai, Shenzhen and/or Hong Kong stock exchanges

ESG reports on companies' websites | Statistics

Frequency of reporting | • Massive increase of reporting frequency occurred from 2005–2009.
• **Government**-controlled companies and companies on the Top 100 Green Companies list had higher reporting frequency.
• Companies that published ESG reports had lower financial risks and higher market return.
• Main driver of the disclosure was accountability. | N/A |

# CHAPTER 3: CHINA AND CSER PRACTICE IN CHINA

## 3.1 INTRODUCTION

As corporate social and environmental reporting (CSER) issues need to be considered within their particular socio-political and economic contexts (Belal and Momin 2009), this chapter presents an overview of China's socio-economic and institutional contexts for a better understanding of CSER practice in China. Section 3.2 discusses China's global influence and its social and environmental issues. Section 3.3 provides an overview of the institutional context of CSER in China. The current situation and trend of CSER in China is then described in Section 3.4. The last section, Section 3.5, is the summary of the chapter.

## 3.2 CHINA AND ITS SOCIAL AND ENVIRONMENTAL ISSUES

### 3.2.1 China's global influence

China is the largest country in Asia and the third largest country in the world, covering approximately 9.6 million square kilometres in land area and approximately 4.73 million square kilometres in water area (China National Tourism Administration 2013). It is also the world's most populous nation with a population of over 1.36 billion in 2013 (National Bureau of Statistics of China 2014), making up almost one-fifth of the world's population.

Since the Open Door policy and market reform launched at the end of 1978, China has experienced spectacular economic growth with an average annual growth rate of nearly 10% in gross domestic product (GDP) (National Bureau of Statistics of China 2014). According to data from the International Monetary Fund (IMF) (2014), the country's GDP has expanded almost 31-fold from US$309.06 billion in 1980 to US$9,469.12 billion in 2013 (see Figure 3.1). By the end of 2010, China had officially surpassed Japan in nominal GDP to become the world's second-largest economy (Central Intelligence Agency [CIA] 2013). It is predicted that China will surpass the USA to be the world's largest economy after 2020 and that it will contribute one-third of the total world economic growth by 2025 (US National Intelligence Council 2012).
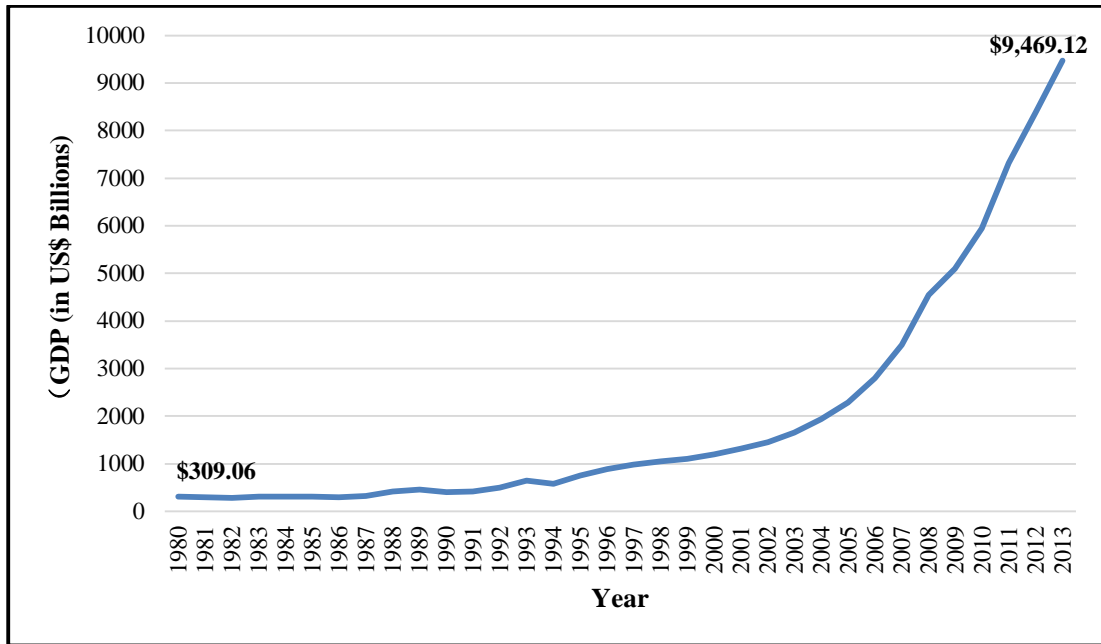
**Figure 3.1: China's nominal GDP (1980–2013)**

Data source: International Monetary Fund (IMF) (2014)

In the past three decades, especially since its accession to the World Trade Organization (WTO), China has become one of the countries that receive the most foreign direct investment (FDI). Even during the global economic recession in 2009, approximately US$90 billion of FDI was flowing into China (Chen 2010). In 2012, China attracted US$253 billion FDI (18% of global FDI), making it the largest recipient country of FDI (OECD 2013). In 2013, Mainland China attracted US$124 billion in inward FDI, while Hong Kong also received US$77 billion FDI (UNCTAD 2014).

As the fastest-growing and second-largest economy in the world, China plays an increasingly important and influential role in the global economy. As the most populous nation with nearly one-fifth of humanity and as the world's top manufacturer, China is the world's leading resource consumer. According to the International Energy Agency (IEA) (2010), China, with 17% of global energy consumption, overtook the USA as the world's largest energy consumer in 2009. In 2000, China's total consumption of energy was only half that of the United States (USA). However, in the following eight years, its demand increased more than four times (International Energy Agency [IEA] 2010). The IEA (2010) has forecast that the future growth of China's

energy consumption would remain strong and China would account for 22% of the global demand for energy in 2035.

There is no doubt that China plays an important role in the world's development, in terms of its vast territory, large population, increasing influence in the global economy and huge appetite for resources. However, China's rapid economic ascent is accompanied by enormous negative environmental and social impacts which also significantly affect global sustainability.

### 3.2.2 China's environmental issues

To support its rapid economic expansion and industrial development, China has maintained a high level of energy consumption, primarily from carbon-intensive fossil fuel, which has exacerbated many environmental problems, such as climate change, air pollution, water pollution, land erosion and solid water disposal (Guo 2011). Industrialisation in China over the past two decades has caused massive environmental pollution in China; China now has two-thirds of the world's most polluted cities (Miller and Spoolman 2008). The World Bank (2012) has estimated that the cost of environmental degradation and resource depletion in China is as high as 10% of its total GDP, with air pollution taking up 6.5%, water pollution 2.1% and soil degradation 1.1%.

China's heavy reliance on coal to fuel its rapid economic growth has caused serious air pollution. China is the world's largest producer and consumer of coal (US Energy Information Administration 2014), which is the most carbon-intensive fossil fuel, and the leading source of world energy-related carbon dioxide emissions (US Energy Information Administration 2011). In 2011, global coal consumption accounted for 40% of total $CO_2$ emissions (PBL Netherlands Environmental Assessment Agency 2012). Driven by robust economic growth, China's coal consumption has increased rapidly. During the period 2002–2012, China's coal consumption increased by 2.66 billion tons, while the coal consumption of the rest of world only increased by 0.51 billion tons (see Figure 3.2). In 2012, China took up 49.11% of global coal consumption, which was almost as much as the total of the rest of the world's consumption (see Figure 3.2).
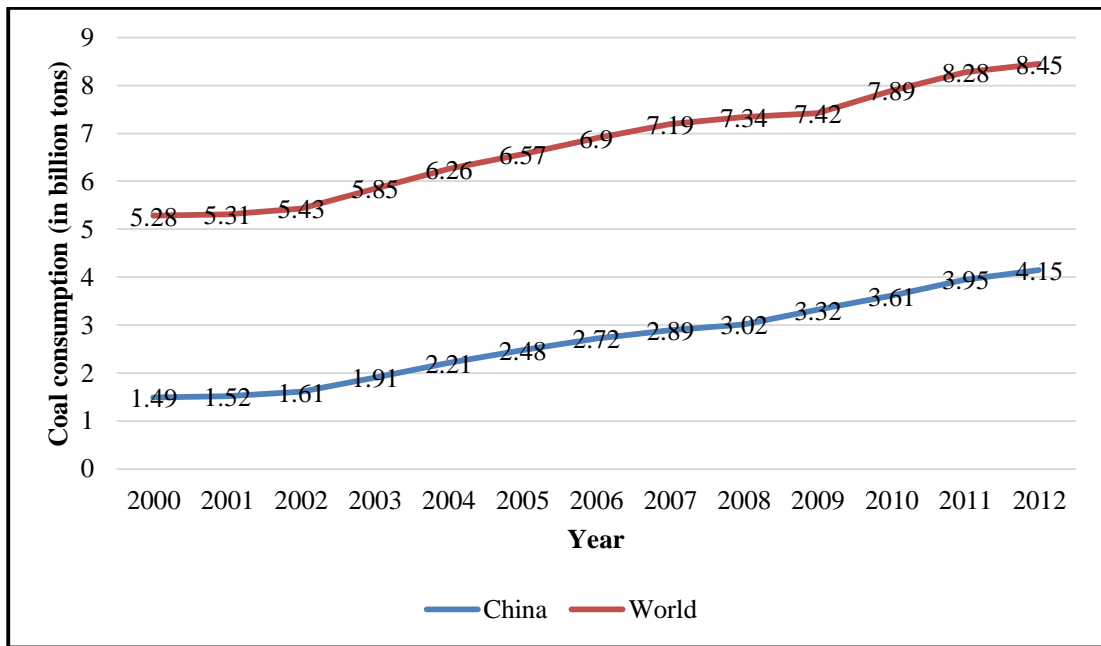
**Figure 3.2: China's coal consumption**

Data source: US Energy Information Administration (2014)

Greenhouse gas emissions account for global climate change and $CO_2$ is the primary greenhouse gas increased by human activities (Intergovernmental Panel on Climate Change [IPCC] 2007). In 2006, China became the world's largest emitter of carbon dioxide, surpassing the USA by approximately 8%, compared to being 2% less than the USA in 2005 (PBL Netherlands Environmental Assessment Agency 2013). According to the global $CO_2$ emissions report of PBL Netherlands Environmental Assessment Agency (2012), China accounted for 29% of the total global $CO_2$ emissions in 2011, followed by the USA, which produced 16% of the total amount. In 2011, China's $CO_2$ emissions reached 9.7 billion tons (EDGAR [Emissions Database for Global Atmospheric Research] 2012), an increase of 720 million tonnes, or 9.3%, primarily due to higher coal consumption (IEA 2012).

The emission amount of other waste gases in China is also very high. In 2013, China contributed 20.44 million tons of sulphur dioxide, 22.27 million tons of nitrogen oxides and 12.78 million tons of smoke and dust (National Bureau of Statistics of China 2014). Air pollution in many cities of China is among the worst in the world. According to a report of the Asian Development Bank (2012), less than 1% of China's

500 largest cities meet the World Health Organization (WHO) air-quality guidelines and seven out of the world's 10 most polluted cities are in China.

*The Economist* (2013) reported a pollution reading taken in Beijing, the capital city of China, on 12 January 2013: the result was 755 on the Air Quality Index, which is based on the standards of the American Environmental Protection Agency and normally maxes out at 500. It is deemed harmful to sensitive people when the score is above 100 and for all people when it reaches 400. The chief culprit of air pollution, PM2.5, is the level of airborne fine particles, which are especially dangerous to the human respiratory system. According to another reading by the American Embassy, the PM2.5 level in Beijing was 886 micrograms per cubic metre, which is 35.44 times the acceptable limit of the World Health Organization set at 25 micrograms per cubic metre. The figures released by Beijing's municipal monitoring centre also showed PM2.5 was over 700 micrograms (*The Economist* 2013). However, Beijing was only ranked the 17th most polluted city in a study on 74 cities in China conducted by the Ministry of Environmental Protection *(South China Morning Post* 2013). According to the 2010 Global Burden of Disease Report by *The Lancet*, air pollution caused 1.2 million premature deaths in China in 2010, up to 40% of the global total (Wong 2013).

Among other significant concerns of China are severe water shortage and pollution. In China, over 1.36 billion people consume more than 600 billion cubic metres of water annually, and the water demand is expected to expand to 700 billion cubic metres by 2030 (*Shanghai Daily* 2012). Moreover, China is listed by the United Nations (UN) as one of the 13 countries with extreme water shortages. The per capita availability of natural fresh water in China is only a quarter of the world average (World Bank 2013).

The water scarcity is made worse by widespread water pollution. According to a report by China's Ministry of Environmental Protection (MEP) (2013), in 2011, 39% of the water from 469 monitored sections of rivers in China was unfit for human consumption, of which 25.3% was only suitable for agricultural or industrial use and the rest, 13.7%, was too polluted for any use. The situation among the rivers flowing into the sea is worse, as 55.1% of the water is unfit for human consumption and 27.3% cannot be used (MEP 2013). The dumping of wastewater is a cause of severe river pollution in China. In 2013, China discharged as much as 69.54 billion tons of wastewater (National Bureau of Statistics of China 2014)

In recent years, public concern has risen about the safety of drinking water in China. With the development of China's economy, a large number of heavy industrial plants have been built along the Yangtze River and other drinking water resources, which threaten the safety of drinking water (*Shanghai Daily* 2012). In addition, according to the Ministry of Supervision, the number of water pollution accidents in China is as high as 1,700 annually (*Global Times* 2012). For example, in 2007, Wuxi, a city in Zhejiang Province, abandoned tap water for more than a week as the result of an algae outbreak caused by industrial pollution, which affected millions of local residents (*Global Times* 2012). More recently, in March 2013, over 16,000 pig carcasses were found floating in tributaries of the Huangpu River *(The New York Times* 2013), which is the drinking water resource for 2.3 million Shanghai residents.

In addition to air and water pollution, China also suffers serious soil degradation and desertification, which not only increase the risk of flood but also threaten the food supply. According to a three-year survey in late 2008 by the Ministry of Water Resources, with 15,000 square kilometres of land eroded yearly, China has more than 3.5 million square kilometres of eroded land, which is almost 40% of the country's territory (*China Daily* 2008b). Moreover, China's State Forestry Administration and Ministry of Land and Resources have stated that nearly 20% of China's territory is covered by deserts and over 25% is threatened by desertification (UNCCD 2011). Over 400 million people in China are threatened or affected by soil erosion and annual economic losses cost up to US$10 billion (*The Guardian* 2013).

### 3.2.3 China's social issues

As with other emerging nations, China is inevitably confronted with massive social problems (*People's Daily* 2005; Bertelsmann Stiftung 2014; UNDP [United Nations Development Programme] 2014) such as high levels of inequality, a widening wealth gap, sweatshops, corruption and violations of human rights.

Although China has been achieving remarkable economic growth since the Open Door economic reform policy in 1978 which has lifted over 500 million people out of poverty (World Bank 2014a), the per capita income of the country is still very low. According to the World Bank (2014d), in 2008, 13.1% of the population in China lived on less than US$1.25 a day while 29.8% lived on below US$2 a day. In 2013, China's nominal GDP per capita was only US$6,959 (IMF 2014) and the gross national income

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per capita was only US$6,560 (World Bank 2014b). China has the second largest number of poor people in the world: in 2012, nearly 99 million Chinese people lived below the national poverty line of annual income of Chinese yuan (CNY) 2,300 or US$368.6 (World Bank 2014a).

The income gap between urban and rural areas in China is large and widening. Figure 3.3 shows the rural–urban income disparities from 2001 to 2011. People from cities and coastal areas have benefited from China's rapid economic growth, but people in the countryside and rural areas still live in poverty. The 2011 annual per capita net income of people in the country's rural areas was as low as around CNY 8895.9 or US$1425.65, which was only 33% of the per capita income in urban areas.
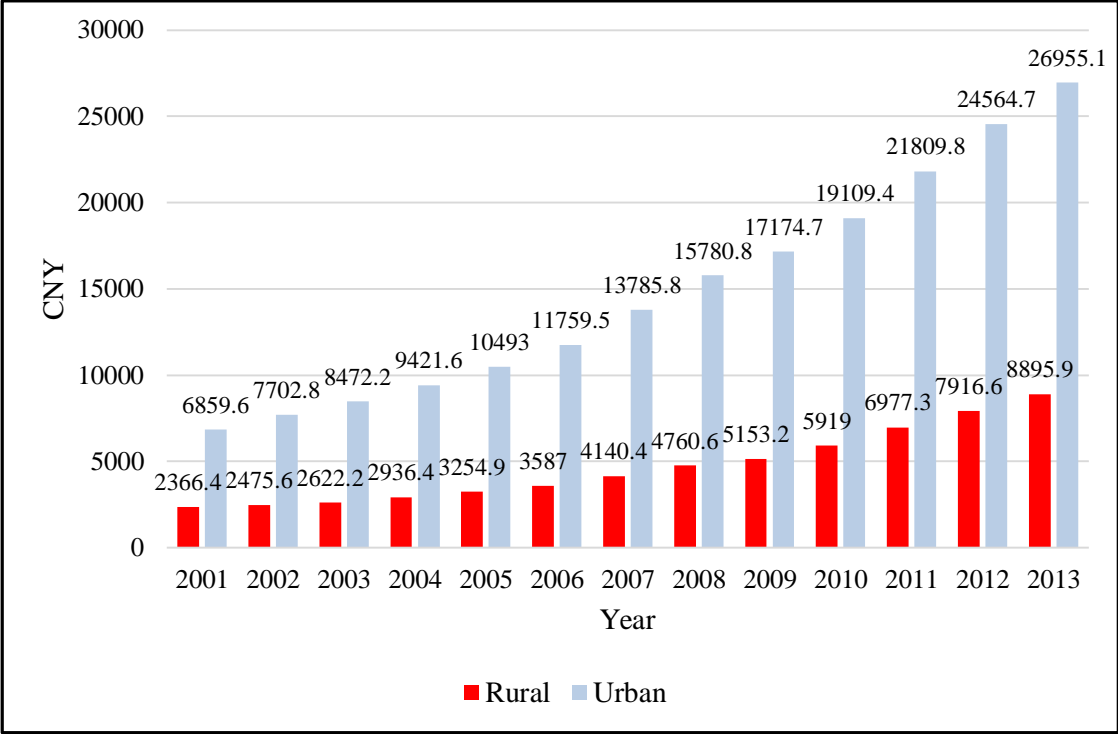


**Figure 3.3: Per capita annual net income in China: urban vs. rural areas**

Data source: National Bureau of Statistics of China (2014)

On the other hand, in 2013, China had as many as 2.4 million millionaire households (in US dollar terms), which made it the country with the second largest number of millionaires in the world (Boston Consulting Group 2014). In 2012, China's Gini coefficient (a gauge of income disparity in a country) reached 0.474, above the 0.4 threshold for potential social unrest often cited by analysts (BBC [British

Broadcasting Corporation] 2013). The widening of income inequity increases tensions between the top and bottom income groups which has the potential to result in social unrest.

Cheap labour is always considered a great cost advantage of China's manufacturing industry. However, the 'sweatshop' issues in China are widely criticised. With its position as the world's largest manufacturing power, China's industry-oriented economy relies on a large number of people in the workforce, the majority of whom are composed of internal migrant workers from impoverished regions moving to urban and prosperous coastal areas. Millions of migrant workers from rural areas in China work in manufacturing sweatshops. They work for long hours and endure poor working conditions with very low salaries, excessive and forced overtime, and no medical insurance or injury compensation. For example, in 2010, 18 workers at the world's largest contract electronics manufacturer Foxconn in China attempted suicide which resulted in 14 deaths. According to a 17-year-old girl who attempted suicide after her first month at Foxconn and was left paralysed from the waist down, her working hours were almost 12 hours a day and conversation were forbidden at work (CBS News 2013). At an interview with China Central Television, a worker said that they usually worked 100 hours of overtime per month and were not even allowed to talk to the people next to them at work (BBC 2010). However, the average salary for these workers was as low as US$295 per month (BBC 2010). The average factory wage in China in 2009 was US$1.74 per hour, which was well below many of its Asian neighbours such as Japan (US$30.03), the Republic of Korea (US$15.06) and Singapore ($17.54) (US Bureau of Labor Statistics 2013).

According to SynTao (2012b), a leading Chinese CSR consultancy, the top five risk categories of social issues in China are occupational health and safety, product safety, labour conditions, business ethics, and corruption and fraud:

- Occupational health and safety accounts for most corporate accidents in China, which was caused by the unsafe working conditions of China's key industry sectors such as manufacturing and mining. There are a large number of regulations on workplace safety but enforcement is weak and not standardised.

- Product safety, especially food safety issues, has been a growing public concern in recent years. There are an increasing number of food safety

incidents such as misuse of non-food-grade chemicals as ingredients, illegal food additives, excess pesticides and fertilisers, and misleading labelling due to the lack of an efficient regulatory network and supervision.

- Labour conditions are another social concern that has attracted significant media attention. When issues occur such as salary disputes, overtime and child labour, there is no independent trade union that can represent workers for collective bargaining. The only legal workers' union in China is the All-China Federation of Trade Unions (ACFTU), the sole national trade union federation of China, which is financially dependent on corporations. Therefore, workers, especially domestic migrants, are disadvantaged in China.

- Lastly, business ethics and corruption and fraud are considered to be an urgent government issue. China is facing a significant challenge in countering corruption, financial fraud, bribery and misuse of company funds which have a large negative impact on product safety, public welfare and security.

## 3.3 INSTITUTIONAL CONTEXT IN CHINA

After the Open Door economic reform policy in 1978, the Chinese government made economic growth the uppermost priority for decades until, in the most recent decade, it has acknowledged the social conflicts and environmental deterioration that has accompanied China's unconfined rapid economic development (World Bank 2014d). The focus of the official government agenda has shifted from economic growth to promoting scientific development and building a harmonious society (Yin and Zhang 2012). In addition, the government has actively promoted the concepts of CSR and sustainability development (Moon and Shen 2010) which largely benefit the development of CSER in China.

In 2003, former Chinese president Hu Jintao, on behalf of the Communist Party of China (CPC)'s Central Committee, proposed the Scientific Outlook on Development ideology in response to the rapid economic growth and a series of environmental and social problems such as excessive consumption of resources, serious environmental pollution and a widening wealth gap (*Xinhua News* 2012). The Scientific Outlook on Development has "putting people first" as its core and sustainability development as its basic requirement (*Xinhua News* 2007). The Scientific Outlook on Development

was added to the Party Constitution at the 17th CPC National Congress in 2007 and was addressed as theoretical guidance of the CPC at the Party's 18th National Congress in 2012 (*Xinhua News* 2012).

"Building a socialist harmonious society" was first launched at the Fourth Plenary Session of the 16th CPC Central Committee in 2004 and was emphasised by former Chinese president Hu Jintao at a high-level Party seminar in 2005. At the seminar, Hu instructed the country's leading officials and Party cadres to place building a harmonious society at the top of their work agenda and, in particular, to strengthen environmental protection, maintain social equity and justice, develop socialist democracy, and strengthen ideological and ethical build-up, etc. (*Xinhua News* 2005). Hu interpreted a harmonious society as a society characterised by

> democracy, the rule of law, equity, justice, sincerity, amity and vitality. It gives full scope to people's talents and creativity, enables all the people to share the social wealth brought by reform and development, and forges a still closer relationship between the people and their government. (*Xinhua News* 2005)

In 2006, the Sixth Plenary Session of the 16th CPC Central Committee approved the *Decision of the CPC Central Committee on Certain Major Issues in the Building of a Harmonious Socialist Society*, in which it specified the need to strengthen the social responsibility of citizens, companies, organisations and the media, and also the responsibility of enterprises and the whole society to save resources and protect the environment (*Xinhua News* 2006). In 2007, the concept of a harmonious society was amplified at the 17th CPC National Congress: Sustainable development was advocated to balance the interests of different sectors; while maintaining sustainable and rapid economic growth, China also needed to strengthen environmental protection, energy conservation and morality education (*China Daily* 2007). The goal of building a harmonious society was perceived as "a departure from an economic growth at all costs model to one in which economic growth is balanced against the urgent need to tackle pressing societal and environmental problems existing in China" (See 2009, 1). It was believed that the 'harmonious society' policy would lead to increased CSR engagement in China (See 2009).

In addition, China's top leaders in their public speeches have emphasised the responsibilities of corporates to Chinese society. On 21 November 2008, at the Asia-

Pacific Economic Cooperation (APEC) CEO Summit, former Chinese president Hu Jintao asserted that enterprises should integrate social responsibility into their business strategy, and abide by the laws of the countries where they operate and by international business practices in order to achieve social results when pursuing economic returns. He also remarked that "[t]he governments should step up guidance and supervision and create a good environment for enterprises to fulfil their social responsibility through drawing up and improving laws" (Ministry of Foreign Affairs of PRC 2008). On 2 February 2009, at the University of Cambridge, former premier Wen Jiabao delivered a speech in which he addressed the importance of ensuring social equity and justice while promoting economic growth and pursuing sustainable development as well as accepting international responsibilities. He also called on all enterprises to take up their social responsibilities and to consider morality issues in their business practices (*Xinhua News* 2009).

The most recent national development program also emphasises environment protection and social equity promotion. On 14 March 2011, China's top legislature, the National People's Congress, ratified *China's 12th Five-Year Plan*, which is the plan for China's national economic and social development from 2011–2015 (KPMG 2011). During the five years, China aims to increase the forest coverage rate to 21.66% and forest stock by 600 million cubic metres; reduce water consumption per unit of value-added industrial output by 30%; reduce energy intensity by cutting 16% energy consumption per unit of GDP; reduce carbon dioxide emission by 17% per unit of GDP; reduce fossil energy consumption; and promote low-carbon energy sources by raising non-fossil fuel to 11.4% of primary energy consumption (*Xinhua News* 2011). In addition, goals were set in the plan to improve social equality and reduce the wealth gap, such as covering all rural residents with pension schemes, constructing and renovating 36 million apartments for low-income families and increasing the minimum wage on average by at least 13% yearly (*Xinhua News* 2011).

Moreover, in 2012, the Chinese government officially published the *People's Republic of China (PRC) National Report on Sustainable Development* before the United Nations Conference on Sustainable Development (UNCSD). On 12 November 2014, China and the USA released the *US–China Joint Announcement on Climate Change* which stated that China aims that its peak $CO_2$ emission should occur by 2030 and for

an increase to 20% in the share of non-fossil fuels in primary energy consumption also by 2030 (*China Daily* 2014).

In addition to the government's official endorsement of sustainability development and CSR in China, government agencies, stock exchange regulators and some industrial associations have played important roles in promoting CSR practice and reporting. The *Company Law of the People's Republic of China* effective from 2006 explicitly stipulates that companies should bear social responsibility. Article 5 states:

> When conducting business operations, a company shall comply with the laws and administrative regulations, social morality, and business morality. It shall act in good faith, accept the supervision of the government and general public, and bear social responsibilities. (LawInfoChina 2005)

On 8 October 2007, to carry out the requirements of the State Council on saving energy and reducing emissions, the Ministry of Commerce (MOC) and the State Environmental Protection Administration (SEPA) jointly issued the *Circular on Strengthening Supervision over Export Enterprises' Compliance with Environmental Protection Laws and Regulations* which aims to improve export enterprises' awareness and to strengthen environmental protection levels (Ministry of Commerce [MOC] [China] 2007). In September 2008, the MOC issued the *Guidelines on Corporate Social Responsibility Compliance by Foreign Invested Enterprises* to encourage foreign companies to take their CSR seriously (*Xinhua News* 2008).

On 4 January 2008, to implement the spirit of the 17th CPC National Congress, the State-owned Assets Supervision and Administration Commission of the State Council (SASAC) issued the *Guidelines to State-owned Enterprises Directly under the Central Government on Fulfilling Corporate Social Responsibilities*. The guidelines aim to urge central government-owned enterprises (CGEs), to fulfil their corporate social responsibilities and value the sustainable development of enterprises, society and the environment. As stated in Article 18, one of the main measures to fulfil CSR is:

> Building the CSR information releasing system. Enterprises having experience in CSR work should establish an information releasing mechanism, providing update and regular information about CSR performance and sustainable development, plans and measures in carrying out CSR. Meanwhile, a regular communication and dialogue mechanism concerning CSR should be established, so that the enterprise can have

feedback from its stakeholders and give its response quickly. All the information and feedback should be publicized to receive supervision from stakeholders and society. (SASAC [State-owned Assets Supervision and Administration Commission of the State Council] 2008)

After the release of the SASAC guidelines, in 2008, 20 of the 150 CGEs at that time released their first CSR reports (SynTao 2008). In November 2009, the SASAC made another announcement at a working conference of CGEs on CSR, underlining the need for CGEs to focus on special areas such as "improving the social responsibility management system", "establishing and improving the social responsibility reporting system" and "strengthen[ing] information disclosure and responsible communication" (SynTao 2009, 5). At another conference of CGEs on CSR in November 2011, the SASAC further announced the stipulation that all CGEs should release their CSR reports by 2012 (SynTao 2012a). All 116 CGEs at that time actively answered the call and, by the end of 2012, all had released CSR reports (*Xinhua News* 2013).

The China Securities Regulatory Commission (CSRC) has also undertaken initiatives to encourage listed companies in taking up social responsibilities and engaging in CSER. In 2001, together with the State Economic and Trade Commission (SETC), CSRC issued the *Code of Corporate Governance for Listed Companies in China*.

Article 86 of the code requires companies to pay attention to environmental protection and social responsibilities. It states:

> While maintaining the listed company's development and maximizing the benefits of shareholders, the company shall be concerned with the welfare, environmental protection and public interests of the community in which it resides, and shall pay attention to the company's social responsibilities. (CSRC and SETC 2001)

Article 88 of the code requires companies to disclose information relevant to stakeholders. It states:

> In addition to disclosing mandatory information, a company shall also voluntarily and timely disclose all other information that may have a material effect on the decisions of shareholders and stakeholders. (CSRC and SETC 2001)

However, this code does not offer any guidelines on how to disclose this information or details of what information to release.

Although stock exchanges are not government bodies, they still have a large influence over listed companies by shaping policies. The two stock exchanges in Mainland China are the Shenzhen Stock Exchange (SZSE) and the Shanghai Stock Exchange (SSE). Companies in China can only be listed on one of these two stock exchanges. Companies listed on the SSE are mostly large-sized, while smaller-sized companies are usually listed on the SZSE. By the end of 2014, 1,618 were companies listed on the SZSE (SZSE 2014) and 995 companies were listed on the SSE (SSE 2014a).

In September 2006, the SZSE released *Social responsibility guidelines for listed companies*, which is formulated based on the Company Law and the Securities Law with the aim being to promote CSR. Article 35 of the guidelines advocates that companies engage in regular CSER:

> The Exchange advocates that companies should establish the social responsibility mechanism as required by these instructions and work out social responsibility reports on a regular basis based on their review and evaluation of the status quo. (SZSE 2006)

At the end of 2008, the SZSE announced a *Notice of Doing a Better Job for Disclosing 2008 Annual Reports*. Article 11 of the notification requires the 100 companies in the SZSE 100 Index to issue annual CSR reports from 2009, following the *Social responsibility guidelines for listed companies*. In addition, it encourages other companies to release CSR reports annually and states that: "CSR reports shall be subject to consideration by the Board of Directors, and released in the form of stand-alone reports at the designated website" (SZSE 2008).

In May 2008, the SSE, the other stock exchange in Mainland China, issued a *Notice of Improving Listed Companies' Assumption of Social Responsibilities* and the *SSE Guidelines on Environmental Information Disclosure by Listed Companies* to enhance CSR awareness of listed companies and encourage them to publish CSR reports (SSE 2008b).

On 31 December 2008, the SSE also issued the *Notice of Doing a Better Job for Disclosing 2008 Annual Reports*. Article 10 of the notice requires three categories of listed companies to publish their CSR reports from 2009 and also encourages other companies to do so. It states:

SSE-listed companies in the SSE Corporate Governance Sector, those who issue foreign capital stock listed abroad and financial companies should disclose the reports on the fulfilment of social responsibilities (hereinafter referred to as social responsibility reports) together with the annual reports of 2008. Other qualified listed companies are encouraged to do so (SSE 2008a).

On 11 May 2009, the SSE also held a seminar on listed companies' social responsibilities, which aimed to guide listed companies to proactively undertake their CSR and encouraged more companies to voluntarily disclose CSR information (SSE 2009a).

On 5 August 2009, the SSE and China Securities Index Co Ltd (CSI) launched the *SSE Social Responsibility Index* which comprised 100 SSE-listed companies with good CSR performance. The purpose of the index was to encourage CSR practices among listed companies, provide a benchmark for investors and promote the concept of socially responsible investment (SSE 2009b).

According to statistics from the SSE, in 2009, 290 of the total 870 SSE-listed companies issued CSR reports (SSE 2012, 2009a). Included in the 290 reporting companies were 282 companies that released the reports for the first time and 32 companies that released the reports voluntarily (SSE 2009a).

In Hong Kong, Hang Seng Indexes Company Limited launched the *Hang Seng Corporate Sustainability Index Series* in July 2010. The indexes included Hong Kong listed companies as well as Mainland listed companies that had a high standard of performance in environmental, social and corporate governance aspects (Hang Seng Indexes 2010).

In 2012, the Hong Kong Stock Exchange (HKEx) released an *Environmental, Social and Governance (ESG) Reporting Guide* to listed companies and planned to raise the obligation level of recommended disclosures to "comply or explain" by 2015 (HKEx 2012a). To help companies prepare for the requirement, in 2013, the HKEx also provided training on the ESG Reporting Guide to companies (HKEx 2013b).

At an industry level, some associations have also engaged in promoting CSER. In 2008, the China Apparel and Textile Association released the *China Sustainability Reporting Guidelines for Apparel and Textile Enterprises* and its first *Report on Social*

*Responsibility of the Chinese Apparel and Textile Industry* (Zhong, Zhang and Zhai 2011). The China Banking Association released the *Guidelines on the Corporate Social Responsibility of Banking Institutions of China* in January 2009 and its first *Report on Social Responsibility of the Chinese Banking Industry* four months later (Zhong, Zhang and Zhai 2011). Furthermore, other associations in industries such as real estate, automobile, medical care and health, direct sales and sporting goods have also released CSR reports for their industries or relevant research reports (Zhong, Zhang and Zhai 2011).

In 2008, 11 national industrial federations and associations, including the China Federation of Industrial Economics (CFIE), and federations and associations in iron, steel, oil, chemicals, light industry, textiles, building materials, non-ferrous metals, electric power and mining industries released their guidelines for CSR, thus requiring all industrial companies and industrial federations of China to establish a CSR system and release their CSR reports regularly (*China Daily* 2008a).

Although CSER has been mainly on a voluntary basis in China in the absence of strong enforcement of codes and guidelines, the current institutional environment in China has provided good opportunities for the development of CSR and CSER. (See Table 3.1 for a summary of the institutional influences mentioned in this section.) China's economy is policy-driven, as is its CSER; policies and regulation initiatives are perceived to be the strongest drivers of CSER (KPMG, GRI and UNEP 2013). The government has focused on building a harmonious society and sustainability development as central issues and has set the tone for promoting CSR. Regulatory bodies and industrial associations have echoed the vision of the government. In recent years, companies in China, especially SOEs and listed companies, are under increasing regulatory pressure to accept their social responsibilities and disclose their social and environmental impacts to the public.

## 3.4 CSER PRACTICE IN CHINA

Although the current institutional environment in China is in favour of CSER, CSER in China is at a very preliminary stage (Noronha et al. 2013). CSR reports and annual reports are two common media used by companies to disclose their corporate social and environmental information. The CSR report is regarded as a much more valuable source of CSER than annual reports according to Frost et al.'s (2005) study in Australia

and Lu and Abeysekera's (2014) study in China. This is due to the fact that the CSR reports and annual reports are directed to different user groups: the purpose of annual reports is to provide information to shareholders on companies' economic performance, while CSR reports are prepared to disclose companies' social and environmental information to stakeholders (Lu and Abeysekera 2014). In China, there are no specific requirements for companies to release social and environmental information in annual reports. Stand-alone CSR reports are currently the dominant medium of CSER in China.

As mentioned in Chapter 1, CSER has various names. In China, CSR report is the prevalent name: in 2014, 96% of the reports that provided corporate social and environmental performance-related information were CSR reports (China WTO Tribune 2014).

### 3.4.1 The increasing number of CSR reports in China

In 1999, Shell China issued the first stand-alone sustainability report in China, which was followed two years later by a report by Petro China. Until 2005, only nine companies in China had released their CSR reports. However, there has been a massive increase in CSR reports since 2009 (see Figure 3.4). According to the China WTO Tribune (2013, 2014), 2,240 CSR reports were released in the first 10 months of 2014 in China, up from 1,525 reports in the same period of 2013. The latest KPMG survey of corporate responsibility reporting (2013) showed that 75% of the top 100 companies in China published CSR reports in 2013, indicating an increase of 16% from 2011. In that survey, China was ranked fifth of 11 countries surveyed in the Asia Pacific region in terms of corporate responsibility reporting rates (KPMG 2013).
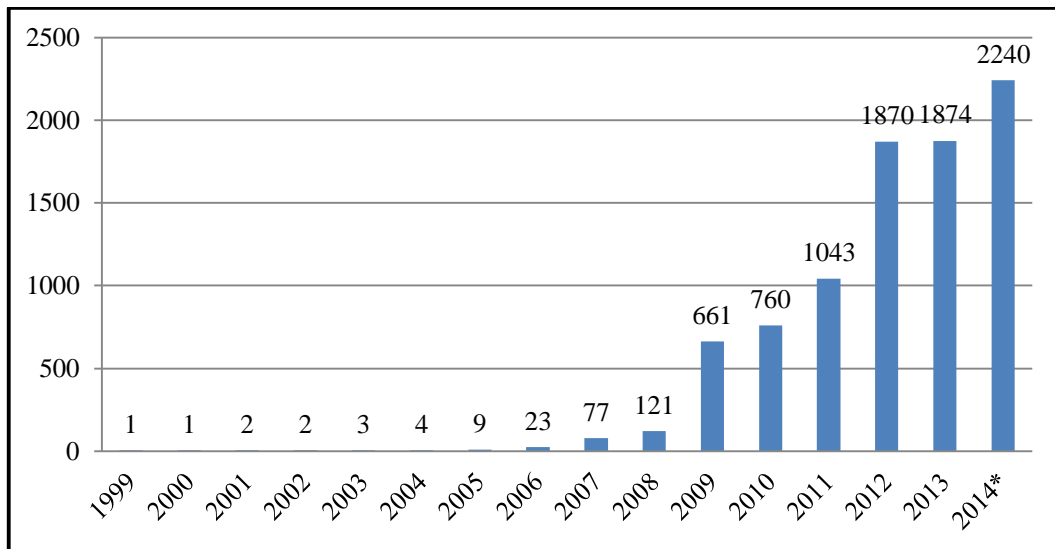
**Figure 3.4: Growth in number of CSR reports in China**

Note: *Only includes CSR reports issued from January–October 2014

Data sources: SynTao (2013, 6), China WTO Tribune (2014)

The reasons for the rapid growth in the number of CSR reports since 2006 are complex. However, it is obvious that the influence of the government, stock exchanges and stock exchange regulators provides an important impetus in promoting CSER in China (SynTao 2009). As mentioned in the preceding section, since 2005, the Chinese government has paid increasing attention to the social and environmental problems accompanying rapid economic development. Aligned with the spirit of the central government, government bodies, stock exchange regulators and industry associations have largely promoted the concepts of a harmonious society, sustainable development and CSR. In particular, the release of guidelines in 2008 by the SASAC, the SSE and the SZSE, requiring certain categories of companies to publish CSR reports, has accounted, to a great extent, for the remarkable increase of CSR reports since then.

### 3.4.2 Distribution of reporting companies

The majority of CSR reports issued in China were by companies. In 2012, 87.74% of CSR reports were issued by companies, while the rest were issued by other organisations (SynTao 2013). In the first 10 months of 2013, 91.6% of the CSR reports were issued by companies, while 8.4% were issued by other organisations (China WTO Tribune 2013).

Among different types of reporting companies, state-owned enterprises (SOEs) (including CGEs and non-CGEs) comprised a majority of the CSR reporters (see Figure 3.5). After the SASAC launched specific reporting guidelines in 2008, of the 533 CSR reports released in 2009, 352 reports were released by SOEs (including CGEs and non-CGEs) (SynTao 2012a), which comprised 66% of the total. In 2012, the number of CSR reports issued by SOEs increased to 956, which accounted for 56% of the total reports issued in that year (SynTao 2013). The reason for the drop in percentage of reports from SOEs was that reports by reporting companies of the other two types of ownership increased rapidly.

As Figure 3.5 shows, from 2008–2012, the number of foreign companies publishing CSR reports increased tenfold, while the number of CSR reports issued by private companies also increased by 93.8% from 2008–2011, although there was no direct policy or guideline requiring them to publish CSR reports.
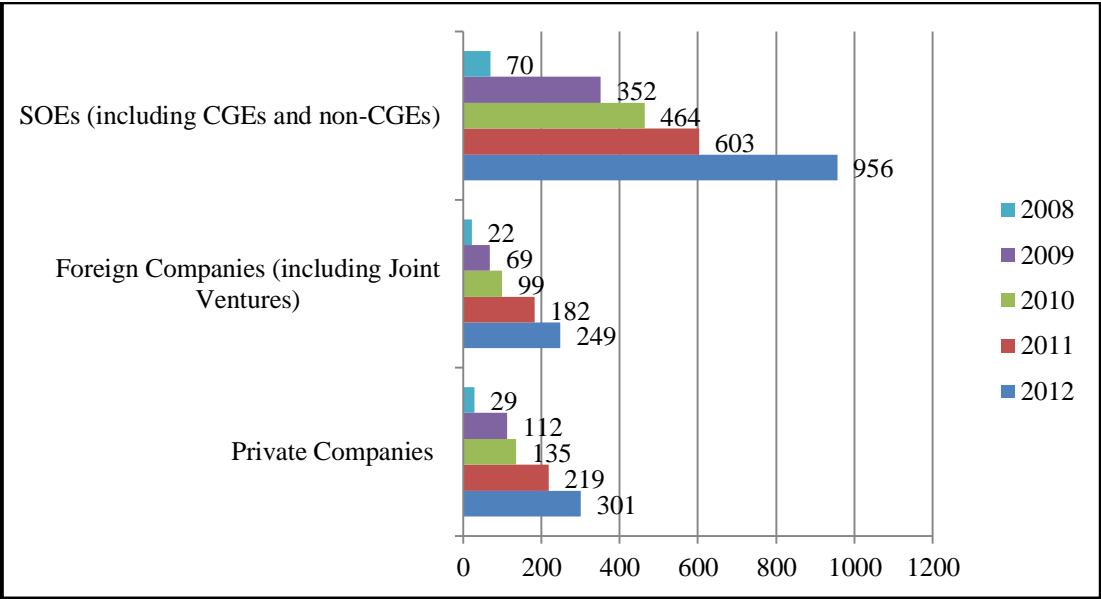


**Figure 3.5: Composition of reporting companies in China (2008–2012)**

Data source: (SynTao 2012a, 2013)

Meanwhile, the number of CSR reports issued by listed companies in China grew dramatically after the SSE and the SZSE announced reporting requirements for some categories of listed companies at the end of 2008 (see Figure 3.6). In 2009, the CSR reports published by listed companies accounted for over 78% of the total number of

CSR reports in China (SynTao 2009). In 2012, 378 of the 954 (39.6%) companies listed on the SSE; 257 of the 1,540 (16.7%) companies listed on the SZSE; and 26 (1.7%) of 1,547 companies listed on the HKEx issued their CSR reports (SynTao 2013; SSE 2014b; SZSE 2014; HKEx 2012b). In the first eight months of 2013, 392 companies listed on the SSE; 277 companies listed on the SZSE; and 17 companies listed on the HKEx published their CSR reports (SynTao 2013). By the end of 2013, 953 companies were listed on the SSE (SSE 2014b); 1,536 companies were listed on the SZSE (SZSE 2013); and 1,643 companies were listed on the HKEx (HKEx 2013a). Companies listed on the SSE had the highest reporting rate, followed by companies listed on the SZSE, while companies listed on the HKEx largely lagged behind them probably because, to date, companies listed on the HKEx have no reporting requirements.
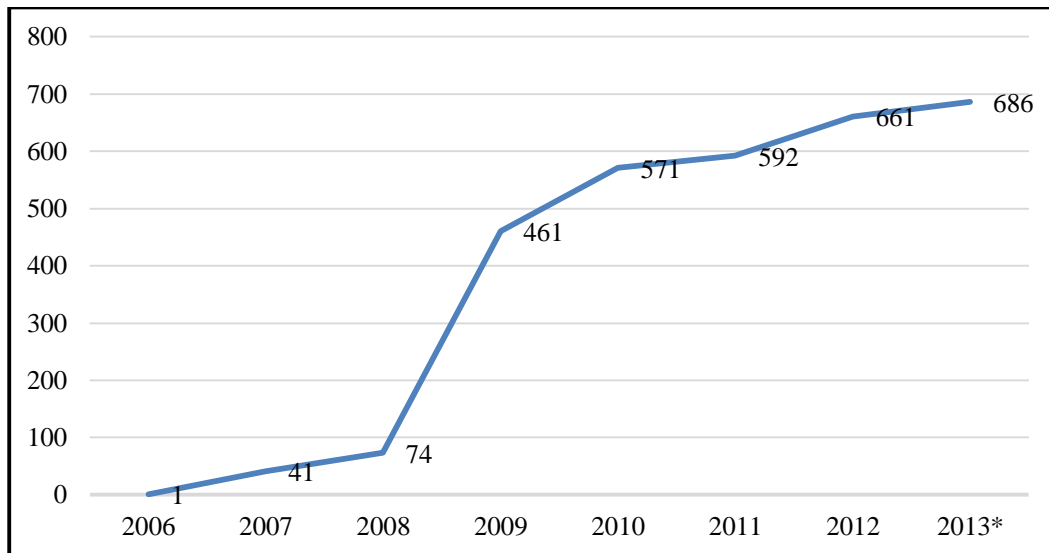


**Figure 3.6: Number of CSR reports issued by listed companies in China**

Note: *From January–August 2013

Data source: SynTao (2013)

As for the industry distribution of companies publishing CSR reports, in 2012, companies in the finance sector issued most CSR reports, followed by companies in the manufacturing sector, as seen in Figure 3.7 which presents the number of CSR reports published by companies in a total of 29 industries.
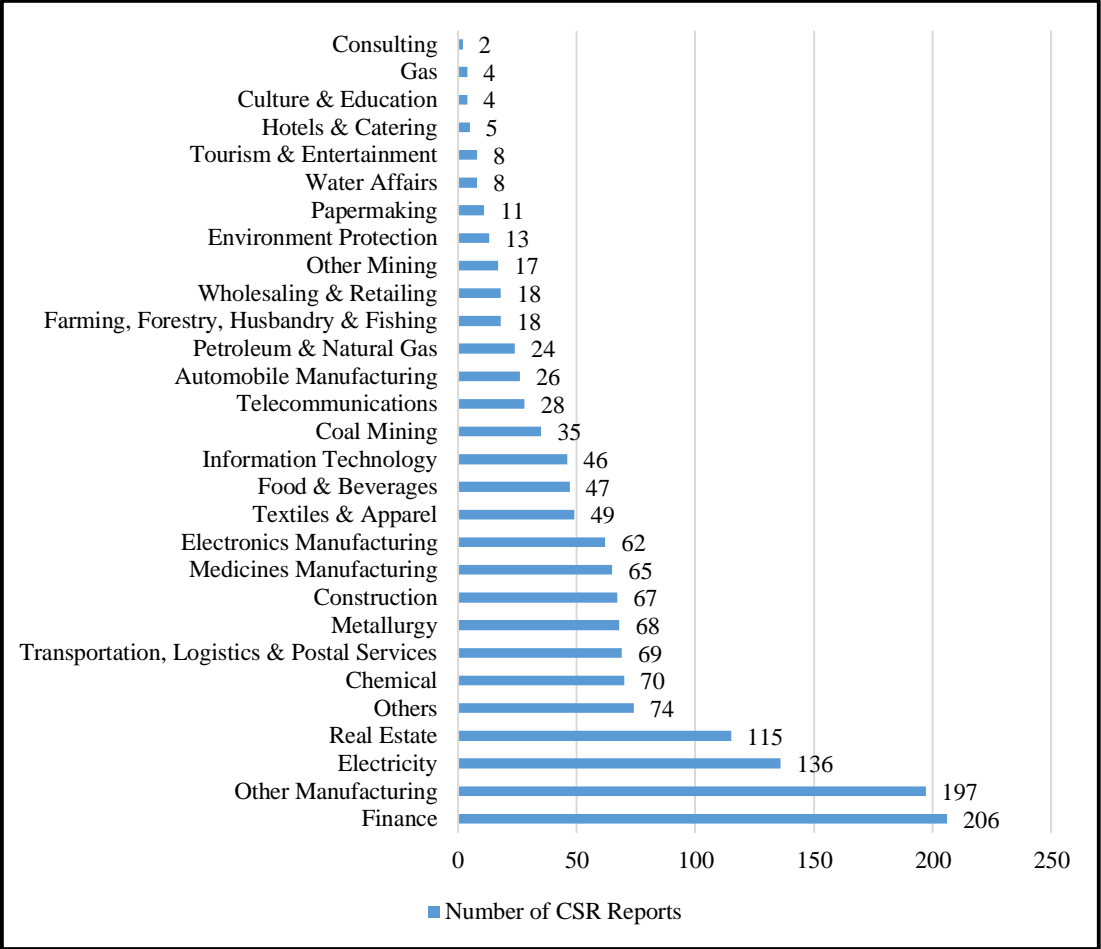
**Figure 3.7: Industry distribution of companies publishing CSR reports in China (2012)**

Data source: SynTao (2013)

### 3.4.3 Content of CSR reports in China

Despite the rapid growth in the quantity of stand-alone reports, CSER in China is still at a preliminary stage and is predominantly voluntary. In most cases, it is up to companies to decide whether or not to engage in CSER. Even though some categories of companies (i.e. CGEs, companies in the SZSE 100 Index and three categories of companies listed on the SSE) are subject to requirements to issue CSR reports, there is always "room within the confines of 'mandatory' [requirements] for selective and subjective disclosure" (Buhr 2007, 66), especially in China with the absence of both available standardised reporting frameworks and sufficient supervision.

There is no standardised CSER framework in China. Various organisations have formulated a series of CSER guidelines and standards to guide Chinese companies (see

Table 3.2). With the exception of some categories of companies subject to certain requirements, these guidelines are all on a voluntary basis. Therefore, most companies have freedom to choose which guidelines to follow or whether or not to adopt any guideline.

According to research by the China WTO Tribune (2012, 2013) on CSR reports released in China during the first 10 months of 2012 and 2013, the percentage of reports following certain guideline(s) rose from to 68.2% to 71.9%. Among the various CSER guidelines adopted by companies, the international reporting framework GRI G3 was the most popular guideline in 2012, while the SASAC guideline was most widely adopted in 2013. In addition, various other guidelines were also applied by reporting companies (see Figure 3.8). With the exception of GRI G3, most other guidelines only offered a general idea without any clear reporting framework or specific indicators. Therefore, even if companies followed certain guideline(s), they still had considerable freedom to choose what and how much information to disclose.
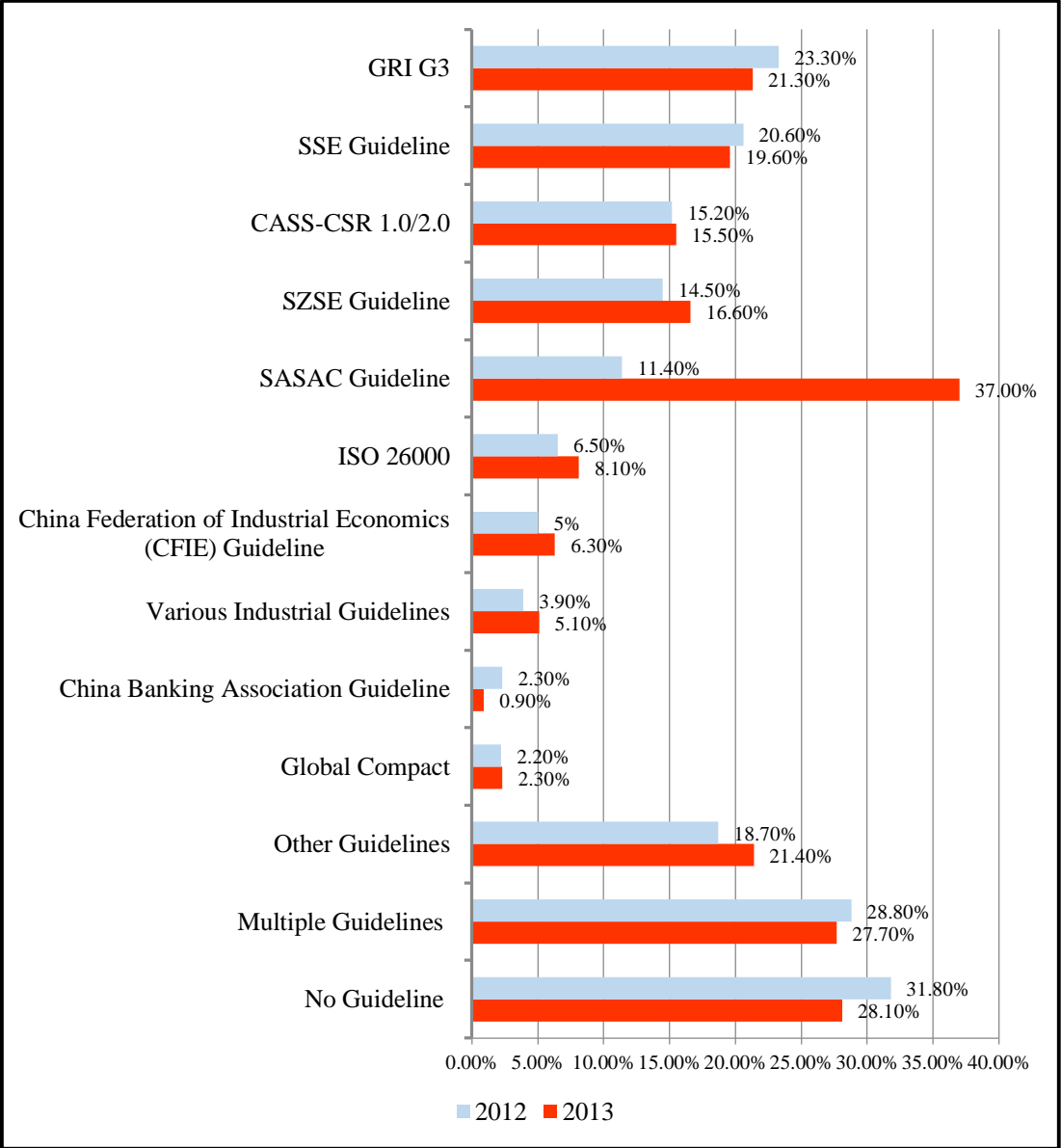
**Figure 3.8: Reporting guidelines adopted by companies in China (%)**

Note: CASS-CSR=Chinese Academy of Social Sciences-Corporate Social Responsibility

Source: China WTO Tribune (2012, 2013)

The number of pages of CSR reports has increased in recent years (see Figure 3.9). In 2010, nearly half of the CSR reports were less than 10 pages and only 16% of the reports were over 50 pages. Among the CSR reports released in the first 10 months of 2013, nearly half of the CSR reports produced were still less than 30 pages.
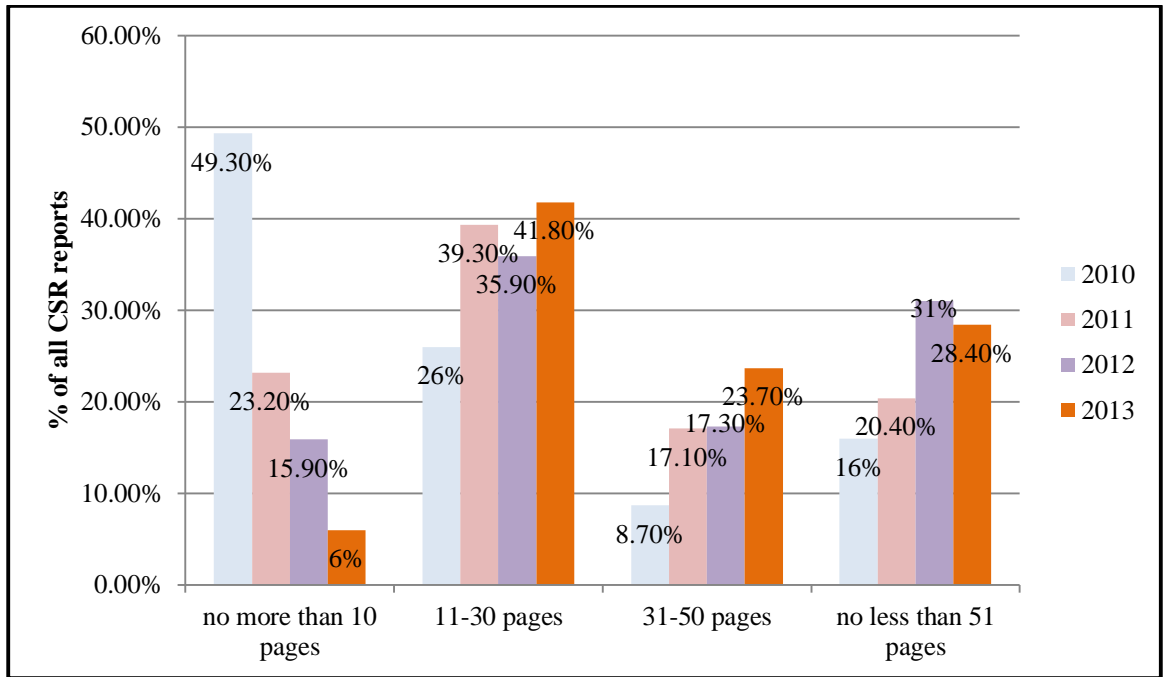
**Figure 3.9: Number of pages in CSR reports in China**

Data source: China WTO Tribune (2012, 2013)

Although companies' CSR reports now include more pages, their many problems include the lack of balanced and fair information (i.e. lack of negative news), lack of quantitative information and lack of standardised indicators which largely impair their completeness, comparability and credibility (SynTao 2012b; China WTO Tribune 2013). Most CSR reports in China are not audited by independent parties. According to statistics from SynTao (2013), only 3% of all CSR reports published in 2012 were audited, and among CSR reports published in the first eight months of 2013, only 4.6% were audited (SynTao 2013).

The China WTO Tribune (2013) assessed 1,241 CSR reports issued in the first 10 months of 2013 in terms of six indicators, namely, completeness, reliability, readability, performance comparability, innovativeness and materiality. It concluded that 73.2% of the reports were still at an early to developing stage in terms of quality. It pointed out that the reports included sufficient qualitative description but deficient quantitative data; only 17.1% of the reports disclosed negative news; the credibility of the reports had dropped since 2011; and the report quality of SOEs was markedly superior to the general level in terms of all six aspects.

Using the key quantitative indicator system that it had built, SynTao (2013) assessed the material and quantitative information disclosure level of CSR reports issued by listed companies in China from 2011–2013. It remarked that although the CSR reports in general lacked quantitative information, there was a small increase in disclosure level on quantitative indicators, from 10.3% of key indicators disclosed in 2011 to 15.9% in 2013. The HKEx-listed companies were found to have disclosed more quantitative indicators in every year, followed by the SSE-listed companies and then the SZSE-listed companies. In 2013, the HKEx-listed companies, the SSE-listed companies and the SZSE-listed companies disclosed, on average, 31.9%, 17.2% and 16.2% of the key quantitative indicators, respectively (SynTao 2013).

KPMG's (2013) survey on the corporate responsibility reporting of G250 companies (the world's largest 250 companies) also suggested that the quality of Chinese companies' CSR reports largely lagged behind global standards: CSR reports of Chinese G250 companies received an average score of 39% which was 20% lower than the global average of 59%. KPMG (2013) remarked that some Chinese companies tended to discuss their broad ambitions and values but lacked details about actual actions or outcomes. It also pointed out the great disparities of the quality of CSR reports in China.

## 3.5 SUMMARY

Since the Open Door economic reform policy in 1978, and especially after its accession to the WTO, China has achieved rapid economic development and continuous prosperity over the last three decades. Being the most populous country worldwide, the second-largest and fastest-growing economy, the leading resource consumer, the world's top manufacturer and the largest carbon dioxide emitter, China plays an important and influential role in the global economy and has a significant role in global sustainability. However, with rapid economic growth, China faces with massive environmental problems such as climate change, high energy consumption, high pollution and ecological destruction as well as social issues such as inequality, a widening wealth gap, sweatshops and corruption. Media exposure of a series of negative issues such as food safety, and air and water pollution in China has sparked widespread concern in public.

The Chinese government has realised that it is confronted by the significant challenge of how it can transform from the explosive economic growth in the past three decades to a sustainable growth in future. Therefore, it has been largely promoting the concepts of building a harmonious society and sustainable development. Companies in China are expected to take more initiatives in relation to CSR practices, with this expectation aligning with national sustainability development objectives. In addition, in response to the call of the government, CSR and CSER have also been actively promoted by regulatory bodies and industrial associations.

Since the SASAC, the SSE and the SZSE released reporting requirements for certain categories of companies in 2008, the number of CSR reports published by companies in China has been increasing remarkably. However, CSER in China is still at an early stage, which was reflected in both the low quantity and quality of CSR reports. Most companies in China have the freedom to choose whether or not to engage in CSER as it is mainly on a voluntary basis. In addition, in the absence of standardised reporting frameworks, unified indicators and sufficient supervision, reporting companies have significant freedom to selectively disclose their CSR information which results in the lack of both negative news disclosure and quantitative information. Despite the rapid growth in the number of CSR reports in China, the quality of these CSR reports in general is perceived to be relatively low (SynTao 2012b; China WTO Tribune 2013).

China is the largest emerging nation in the world; however, among the leading emerging economies in BRIC (i.e. Brazil, Russia, India and China), it is also regarded as the least communicative member on social and environmental information (Alon et al. 2010). Chinese culture is characterised by collectivism, femininity and high power distance (Zhong, Sun and Zhou 2011). With this cultural background, China's accounting and disclosure practice is characterised as supporting statutory control and secrecy in disclosure (Chow, Chau and Gray 1995). These characteristics of Chinese culture support the fact that companies have started to engage in CSER once they were subject to mandatory requirements: without regulations, most companies lacked the initiative to adopt CSER with most reporting companies failing to release sufficient CSR information. However, this is simply external speculation based on facts which can only partly explain the CSER phenomenon in China. It is more important to

understand the enablers and barriers of CSER adoption directly from companies'
perspectives which can be achieved by interviewing their senior managers.

**Table 3.1: Positive institutional influences on the development of CSR and CSER in China**

| Government Official Endorsement | Government Regulatory Bodies | Stock Exchanges | Industry Associations |
|---|---|---|---|
| Promoting sustainability development and building a harmonious society have been put on the top of the official agenda of the Chinese government in recent decades. | Article 5 of the *Company Law of the People's Republic of China* effective from 2006 explicitly stipulates that companies should bear social responsibility. | The SZSE released the *Social responsibility guidelines for listed companies* in 2006: Article 35 of the guidelines encourage CSER.<br><br>The SZSE released the *Notice of Doing a Better Job for Disclosing 2008 Annual Reports* in 2008: Article 11 of the notification **requires the 100 companies in the SZSE 100 Index to issue annual CSR reports from 2009**. | The China Apparel and Textile Association released the *China Sustainability Reporting Guidelines for Apparel and Textile Enterprises* and its first *Report on Social Responsibility of the Chinese Apparel and Textile Industry* in 2008. |
| Environment protection and social equity promotion are emphasised in the national development program *China's 12th Five-Year Plan* (2011–2015). | In 2007, the MOC and the SEPA jointly issued the *Circular on strengthening supervision over export enterprises' compliance with environmental protection laws and regulations.*<br><br>In 2008, the MOC issued *Guidelines on Corporate Social Responsibility Compliance by Foreign Invested Enterprises.* | The SSE issued the *Notice of Improving Listed Companies' Assumption of Social Responsibilities* and the *SSE Guideline on Environmental Information Disclosure by Listed Companies* in 2008.<br><br>The SSE issued the *Notice of Doing a Better Job for Disclosing 2008 Annual Reports* in 2008; Article 10 **requires SSE-listed companies in the SSE Corporate Governance Sector, those who issue foreign capital stock listed abroad and financial companies to publish CSR reports from 2009**. | The China Banking Association released the *Guidelines on the Corporate Social Responsibility of Banking Institutions of China* and its first *Report on social responsibility of the Chinese banking industry* in 2009. |

| | | | |
|---|---|---|---|
| The Chinese government officially published the <u>People's Republic of China National Report on Sustainable Development</u> in 2012. | The SASAC issued the *Guidelines to State-owned Enterprises Directly under the Central Government on Fulfilling Corporate Social Responsibilities in 2008,* further announcing the stipulation that **all CGEs should release their CSR reports by 2012.** | The SSE and the CSI launched the *SSE Social Responsibility Index* in 2009 to <u>encourage the CSR practice</u> of listed companies. | Eleven (11) national industrial federations and associations, including the China Federation of Industrial Economics (CFIE), and federations and associations in iron, steel, oil, chemicals, light industry, textiles, building materials, non-ferrous metals, electric power and mining industries released the <u>guidelines for CSR, requiring all industrial companies and industrial federations of China to release their CSR reports regularly.</u> |
| China announced that it would strive for <u>peak $CO_2$ emission by 2030</u> in the *US-China Joint Announcement on Climate Change* released in 2014. | Articles 86 and 88 of the *Code of Corporate Governance for Listed Companies in China* issued by the CSRC and the SETC stipulate that companies should <u>bear social responsibility</u> and <u>disclose all information that is material to stakeholders.</u> | The Hong Kong Stock Exchange (HKEx) published an *<u>Environmental, Social and Governance (ESG) Reporting Guide</u>* in 2012 and planned to have all listed companies "comply or explain" by 2015. | |

**Table 3.2: Most adopted CSER guidelines in China**

| Region | Launch Date | Organisation Launching the Guidelines | Name of Guidelines |
|---|---|---|---|
| Domestic | January 2008 | The State-owned Assets Supervision and Administration Commission of the State Council (SASAC) | The Guidelines to State-owned Enterprises Directly under the Central Government on Fulfilling Corporate Social Responsibilities |
| | 14 May 2008 | The Shanghai Stock Exchange (SSE) | The Guideline of Shanghai Stock Exchange for Environmental Information Disclosure of Listed Companies |
| | | | The Guideline for the Preparation of the Report on Performance of Corporate Social Responsibility |
| | 25 September 2006 | The Shenzhen Stock Exchange (SZSE) | The Social Responsibility Guidelines for Listed Companies |
| | | The Corporate Social Responsibility (CSR) Research Center of Economics Division of the Chinese Academy of Social Sciences (CASS) | The Guidelines on Corporate Social Responsibility Reporting for Chinese Enterprises (CASS—CSR 1.0/2.0) |
| | 12 October 2009 | The China Banking Association | The Guidelines on the Corporate Social Responsibility of Banking Institutions of China |
| | 26 May 2011 | The China Federation of Industrial Economics (CFIE) | The Guideline on Social Responsibility for Industrial Enterprises |
| International | October 2006/23 March 2011/24 May 2013 | The Global Reporting Initiative (GRI) | GRI G3.0/GRI G3.1/GRI G4 |
| | 1 November 2010 | The International Organization for Standardization (ISO) | ISO 26000 |
| | 24 October 2008 | AccountAbility | AA1000 (2008) |
| | 24 June 2004 | The United Nations Global Compact | The Ten Principles |

# CHAPTER 4: RESEARCH METHODOLOGY

## 4.1 INTRODUCTION

This chapter elaborates the research methodology used to explore the phenomenon of corporate social and environmental reporting (CSER) in China and its complexity. While CSER studies in China have been dominated by the quantitative research method, this engagement-based study employs a qualitative approach directly involving senior managers of companies in China. Instead of achieving generalised findings across different cultural and social contexts by an 'etic' approach, it seeks to gain an 'emic' (Pike 1967; Brislin 1976) understanding of the enabling motivations (RO.1) and impediments (RO.2) of CSER adoption in China from a managerial perspective. This emic understanding is considered together with publicly available information and the relevant literature to refine effective enablers that are most likely to encourage the advancement of CSER in China (RO.3). To allow the participants' views to emerge, an inquiry paradigm utilising constructivist ontology, interpretivist epistemology and qualitative methodology is chosen.

This chapter comprises ten sections. After the introduction, Section 4.2 presents the research paradigm and the justification for selecting the qualitative research method. Section 4.3 introduces the theoretical approach while Section 4.4 provides an overview of the research design. Section 4.5 then presents the processes used for sampling and data collection. Section 4.6 describes the approach taken in managing and analysing the data, followed by discussion of the limitations of the study in Section 4.7 and of the rigour in qualitative research in Section 4.8. Section 4.9 presents the ethical issues while the final section, Section 4.10, is a summary of this chapter.

## 4.2 RESEARCH PARADIGM

A paradigm is a world view comprising a set of basic beliefs or underlying assumptions about "the nature of the world, the individual's place in it, and the range of possible relationships to that world and its parts" (Guba and Lincoln 1994, 107) within which research and development in a field of inquiry takes place (Kuhn 1970). Every stage of research includes assumptions that shape the understanding of the research questions, research method and interpretation of the research findings (Saunders, Lewis and Thornhill 2012). A paradigm guides the actions of the researcher and the

disciplined inquiry (Guba 1990). It presents "a cluster of beliefs and dictates which for scientists in a particular discipline influence what should be studied, how research should be done, how results should be interpreted and so on" (Bryman 1988, 4).

A paradigm consists of premises about ontology (the nature of 'reality'), epistemology (the nature of the relationship between the inquirer and the knowable) and methodology (the process of inquiry) (Guba 1990). Guba and Lincoln (2005) described five basic beliefs of alternative paradigms, namely, positivism, post-positivism, critical theory, constructivism and participatory action research. Table 4.1 summarises the assumptions within each paradigm.

The objectives of this study are to explore the enablers of and barriers to CSER adoption in China from a managerial perspective and to refine the more effective ways to advance CSER in China (see Chapter 1, Section 1.3). This study seeks to explore senior managers' subjective perceptions of the CSER phenomenon in China. It requires an understanding of the normative assumptions underpinning CSER in China through the eyes of the participants. To achieve this, it is appropriate to follow a constructivist paradigm, which involves multiple subjective world views where participants themselves provide meanings (Creswell 2013a).

**Table 4.1: Basic beliefs of alternative paradigms**

| Issue | Positivism | Post-positivism | Critical theory et al. | Constructivism | Participatory Action Research |
|---|---|---|---|---|---|
| Ontology | Naïve realism: 'real' reality but apprehendible | Critical realism: 'real' reality but only imperfectly and probabilistically apprehendible | Historical realism: virtual reality shaped by social, political, cultural, economic, ethics and gender values; crystallised over time | Relativism: local and specific co-constructed realities | Participative reality: subjective-objective reality, co-creative by the mind and a given cosmos |
| Epistemology | Dualist/objectivist; findings true | Modified dualist/objectivist Critical tradition/community; findings probably true | Transactional/subjectivist; value-mediated findings | Transactional/subjectivist; co-created findings | Critical subjectivity in participatory transaction with the cosmos; extended epistemology of experiential, propositional and practical knowing; co-created findings |
| Methodology | Experimental/manipulative; verification of hypotheses; chiefly quantitative methods | Modified experimental/ manipulative; critical multiplism; falsification of hypotheses; may include qualitative methods | Dialogic/dialectical | Hermeneutical/dialectical | Political participation in collaborative action inquiry; primacy of the practical; use of language grounded in shared experiential context |
| Nature of knowledge | Verified hypotheses established as facts of laws | Non-falsified hypotheses that are probably facts of laws | Structural/historical insights | Individual and collective reconstructions sometimes coalescing around consensus | Extended epistemology: primacy of practical knowing; critical subjectivity; living knowledge |

Source: Guba and Lincoln (2005, 195-196)

Constructivism assumes the relativism of multiple social realities, recognises the co-creation of knowledge and understanding by the investigators and participants, and aims to distil a consensus construction that is interpreted, compared and contrasted through dialectical interchange (Guba and Lincoln 2005, 1994). Correspondingly, interpretivist epistemology and qualitative methodology are adopted in this study. Table 4.2 provides a sketch of the research paradigm adopted in this study.

**Table 4.2: Research paradigm**

| Premises | Perspectives | Assumptions |
|---|---|---|
| *Ontology* | Constructivist | Realities are subjective and multiple. They are constructed by the participants in this study and must be interpreted and understood. |
| *Epistemology* | Interpretivist | The researcher and participants co-create the understanding and knowledge. |
| *Theoretical perspective* | Phenomenology | "We can only know what we experience by attending to perceptions and meanings" (Patton 2002, 105). |
| | Symbolic interactionism | "Emphasis on the importance of symbols and the interpretative processes that undergird interactions as fundamental to understanding human behaviour" (Patton 2002, 113). |
| *Methodology* | Qualitative | Exploratory, descriptive, inductive<br><br>Allow stories to be told |

### 4.2.1 Ontology

Ontology is about the nature of the "knowable" or the nature of reality (Guba 1990). It refers to

claims and assumptions that are made about the nature of social reality, claims about what exists, what it looks like, what units make it up and how these units interact with

each other. In short, ontological assumptions are concerned with what we believe constitutes social reality. (Blaikie 2000, 8)

Constructivism is grounded in the belief that "reality is socially constructed" (Mertens 1998, 11) by the actor's mind. It takes a position of relativism with the assumption that "realities exist in the form of multiple mental constructions, socially and experientially based, local and specific, dependent for their form and content on the persons who hold them" (Guba 1990, 26). This study aims to explore senior managers' perceptions of CSER in China and to represent the perceptual constructions held by the participants. The social actors, such as the participants in this study, may place different interpretations on situations, which leads to their various perceptions from their own view of the world, rather than an absolutist view of the world (Saunders, Lewis and Thornhill 2012). The reality constructed in this study is based on the interpretations of the participants' subjective perceptions. It cannot be measured or tested. Rather it must be interpreted and understood within the emic context of China.

### 4.2.2 Epistemology

Epistemology is about "the nature of the relationship between the knower and the known" (Guba 1990). It refers to "the claims or assumptions made about possible ways of gaining knowledge of social reality, whatever it is understood to be … how what is assumed to exist can be known" (Blaikie 2000, 8). Epistemology provides "a philosophical grounding for deciding what kinds of knowledge are possible and how we can ensure they are both adequate and legitimate" (Maynard 1994, 10). Crotty (1998, 3) describes epistemology as "the theory of knowledge embedded in the theoretical perspective and thereby in the methodology".

In order to understand the participants' view of the world in this study, interpretivist epistemology becomes the way in which the researcher and participants co-create understanding and knowledge (Guba and Lincoln 2005). Interpretivism assumes that "knowledge of this perceived world (or worlds) is meaningful in its own terms and can be understood through careful use of appropriate interpretivist and relativist procedures" (Carson et al. 2001, 4). Interpretivism requires the researcher to adopt an empathetic stance, which means the researcher has to enter the social world of the participants and understand their world from their point of view (Saunders, Lewis and Thornhill 2012). To achieve this, phenomenology and symbolic interactionism

become the lenses of the theoretical perspectives of this study, enabling the researcher to look through the particular lenses of the participants. The two lenses of these theoretical perspectives are two intellectual traditions from which the heritage of interpretivism evolved (Saunders, Lewis and Thornhill 2012). They are elaborated in Section 4.3.

From an interpretivist perspective, the research process aims to develop an understanding of the social reality experienced by the participants. Accordingly, the appropriate research problem is to understand the phenomenon from the viewpoint of the participants who were involved in its creation (Allard-Poesi and Marechal 2001). In this study, the participants were senior managers who had a clear understanding about their companies' decision making including when making CSER decisions. Therefore, participants in this study were competent to interpret and construct their own perceptions of the CSER phenomenon in China. This study seeks to present and understand their views. The constructs from participants were constantly compared and contrasted with each other, as well as with publicly available information and the previous literature to generate a shared socially constructed reality of CSER in China.

### 4.2.3 Methodology

Methodology is "the strategy, plan of action, process or design lying behind the choice and use of particular methods and linking the choice and use of methods to desired outcomes" (Crotty 1998, 3). It is about the way and the process adopted by the inquirer to find out knowledge (Guba 1990). A certain methodology reflects specific ontological and epistemological assumptions. These assumptions "determine the choice of approach and methods adopted in a given study by emphasising particular ways of knowing and finding out about the world" (Grix 2001, 136).

Qualitative methodology is underpinned by constructivist ontology and interpretivist epistemology in this study. Unlike quantitative research, which uses numerical measurement to examine the statistical relationship between variables, qualitative research seeks to understand the subjective, socially constructed meanings expressed about a phenomenon (Saunders, Lewis and Thornhill 2012). Qualitative research adopts "an interpretive, naturalistic approach to the world" (Denzin and Lincoln 2011, 3) and aims to understand the meanings constructed by people in their natural settings: in other words, the way that people make sense of the world/phenomena, their

interpretations of their experience in the world/phenomena and the meaning they attribute to these experiences (Merriam 2009; Denzin and Lincoln 2011).

Qualitative study is guided by an emic perspective, which represents an insider's view of reality, rather than an etic perspective based on external logical scientific analysis (Fetterman 2008). In this study, it is crucial to understand the CSER phenomenon in China from the perspectives of insiders/participants, not from the view of the researcher as an outsider (Merriam 2009). Emic understandings are context-specific (Tracy 2013), as an emic account comes from a person within the culture (Pike 1967). Qualitative research covers "an array of interpretive techniques which seek to describe, decode, translate, and otherwise come to terms with the meaning, not the frequency, of certain more or less naturally occurring phenomena in the social world" (Van Maanen 1979, 520). It is concerned with reaching a deep understanding of the research questions in a unique context by emphasising the depth of insight rather than the breadth of generalisation (Ulin, Robinson and Tolley 2004). The intention of qualitative research is to elucidate the particular and the specific (Pinnegar and Daynes 2007; Creswell 2013b).

This exploratory field study has no intention of generalising its findings or testing any theory. Instead, it seeks to understand the rationale behind managerial decisions on the CSER phenomenon and the symbolic perceptions of meaning that senior managers attribute to CSER in the unique China context. Qualitative methodology enables the researcher to build a partnership with participants to gain emic knowledge from them of the CSER phenomenon in China. Given the research objectives and questions of this study (see Chapter 1, Section 1.3), a qualitative approach guided by a constructivist paradigm is most likely to facilitate the interpretation and understanding of the participants' perceptions of the CSER phenomenon in China.

The inductive approach of qualitative methodology also allows patterns or theories to emerge from these stories (Creswell 1994) to explain the CSER phenomenon in China. The methodology in a constructivist paradigm is hermeneutic and dialectic: it facilitates the process in which the constructions of participants are "elicited and refined hermeneutically, and compared and contrasted dialectically, with the aim of generating one (or a few) constructions on which there is substantial consensus" (Guba 1990, 27).

## 4.3 THEORETICAL PERSPECTIVE

The choice of methodology is based on a set of assumptions brought to the research. Theoretical perspectives provide "the view of the human world and social life within that world, wherein such assumptions are grounded" (Crotty 1998, 7). A theoretical perspective is "the philosophical stance informing the methodology and thus providing a context for the process and grounding its logic and criteria" (Crotty 1998, 3). In this study, phenomenology and symbolic interactionism, as two interpretivist approaches, are the theoretical perspectives lying behind the methodology adopted to study the participants' perception of CSER adoption in China.

### 4.3.1 Phenomenology

Phenomenology is one of the five major qualitative approaches identified by Creswell (2013a). A phenomenology study describes the common meaning of individuals' lived experiences of a phenomenon (Creswell 2013a). It answers the basic question: "what is the meaning, structure, and essence of the lived experience of this phenomenon for this people or group of people?" (Patton 2002, 104). Phenomenology is based on the assumption of the existence of an essence to shared experience, which is defined as "the core meanings mutually understood through a phenomenon commonly experienced" (Patton 2002, 106). A phenomenon is identified by reducing different people's individual experiences with a phenomenon to a description of the universal essence of the experience for all of them (Creswell 2013a). The essence is captured through bracketing, analysing and comparing the experiences with the phenomenon of different people (Patton 2002).

The philosophy of phenomenology was founded by German mathematician Edmund Husserl (1859–1938) in 1913. Patton (2002, 105-106) describes phenomenology, according to Husserl (1962), as "the study of how people describe things and experience them through their senses". He also stresses the most basic philosophical assumption by Husserl (1962) that: "we can only know what we experience by attending to perceptions and meanings that awaken our conscious awareness". Consciousness is regarded as "the only access human beings have to the world" (van Manen 1990, 9).

The world view of phenomenology is "what is perceived as happening by individuals" (Munhall 1994, 16). The assumption behind phenomenology is that the knowledge of social reality is grounded in people's experiences of that social reality (Crotty 1998; Gray 2014), something experienced in a phenomenon is transferred into consciousness (Merriam 2009).

Phenomenology is generally seen as a study of people's everyday lived experience from their subjective point of view (Crotty 1998). Hence, it is crucial to interpret the experience from the individual's unique perception (Munhall 1994). The researcher gains understanding of the phenomenon by interpreting the essential structures through the reflective descriptions of the participants about their lived experiences of the phenomenon (Giorgi 1997; van Manen 1990). In this study, this entails senior managers' experience of the adoption or non-adoption of CSER by companies in the context of China. The researcher needs to put herself in the place of the participants to learn the common understandings and meanings of common practices as phenomenological research is regarded as "an exploration, via personal experiences, of prevailing cultural understandings" (Crotty 1998, 83).

The researcher was fully aware that the interpretation of the CSR phenomenon in China is based on the views of the participants rather than the researcher's own perception of the phenomenon. The researcher acknowledged that she had her own subjective perspective. In order not to taint the data, the researcher's own knowledge and presuppositions were bracketed (Crotty 1998). "Bracketing" is a term from Husserl's philosophical school of phenomenology. The researcher is supposed to seek the meaning and structures emerging with an open mind (Rossman and Rallis 1998). In order to understand the participants' subjective experience of the phenomenon, the researcher should bracket her current understanding and preconceptions to the best of her ability to avoid imposing her own prejudgement on the phenomenon.

As a research philosophy, phenomenology "sees social phenomena as socially constructed, and is particularly concerned with generating meanings and gaining insights into those phenomena" (Saunders, Lewis and Thornhill 2012, 677). A phenomenological approach is adopted in this study. A phenomenological approach is inductive; it seeks to find the internal logic of the subject rather than one that imposes an external logic with a theoretical model on a phenomenon (Gray 2014). The

phenomenon in this study is formed by the senior managers' perceptions, through their personal direct experiences, of companies' CSER practices. This study aims to explore the common meanings of the CSER phenomenon in China from the participants' points of view.

Phenomenological research focuses on "the meaning of a particular aspect of experience, assuming that through dialogue and reflection the quintessential meaning of the experience will be reviewed" (Rossman and Rallis 1998, 72). A phenomenological approach seeks to explore "how human beings make sense of experience and transfer experience into consciousness" (Patton 2002, 104) which requires "methodologically thoroughly capturing and describing their experiences of the phenomenon—how they perceive it, describe it, feel about it, judge it, remember it, make sense of it and talk about it with others" (Patton 2002, 104). To gather this information, the researcher must undertake in-depth interviews with people who have lived experiences (Patton 2002). To be sure of not prejudicing the subjective perception of the participants' experiences, the researcher should ask open-ended questions in the interviews to let the themes arise from the data, rather than imposing prejudgement on them (Crotty 1998). Hence, this study adopts semi-structured in-depth interviews with open-ended questions as the main research method to explore the shared meaning of the participants' experiences. Details of the research design are elaborated in Section 4.4.

### 4.3.2 Symbolic interactionism

Symbolic interactionism is one of the main sociological approaches in qualitative study (Woods 1992). It is based on the assumption that meaning is developed and constructed in the process of social interaction between people (Denzin 1992; Woods 1992; Blumer 1969). 'Meaning' is central to social behaviour because "human interaction with the world is mediated through the process of meaning-making and interpretation" (Gray 2014, 24).

Blumer (1969, 2) summarised three essential principles of symbolic interactionism, namely:

- Human beings act toward things on the basis of the meanings that these things have for them.

- The meaning of such things is derived from, and arises out of, the social interaction that one has with one's fellows.
- These meanings are handled in, and are modified through, an interactive process used by the person in dealing with the things he encounters.

Symbolic interactionism believes that social reality is socially constructed through human interpretation and that people act based on their subjective perceptions (Andersen and Taylor 2009). It addresses "the subjective meanings that people impose on objects, events, and behaviours" (Andersen and Taylor 2009, 20). The meanings are conveyed by people through symbols such as signs, languages, gestures, looks, actions, appearance and body language (Woods 1992).

As a theoretical perspective in social research, a symbolic interactionist perspective implies that the researcher must put herself in the place of the actors in the situation to see the reality from their perspective and to ensure that the meanings attributed to the social phenomenon are indeed the actors' meanings (Psathas 1973; Crotty 1998). Methodologically, the researcher is required to accept the standpoint of the participants to the best of her ability (Denzin 1989; Crotty 1998). The researcher needs to "understand behaviour as the participants understand it, learn about their world, learn their interpretation of self in the interaction, and share their definitions" (Chenitz and Swanson 1986, 7). The researcher is Chinese, thus she understands the spoken language as well as the unspoken symbolic nuances that prevailed during the engagement-based research.

Interaction with the participants by symbols enables the researcher to take their standpoint (Crotty 1998). Language is an important symbol because dialogue is the only way that people can understand "the perceptions, feelings and attributes of others and interpret their meanings and intent" (Crotty 1998, 75). In this study, the researcher seeks to understand the symbolic meaning that senior managers attribute to CSER in China. Semi-structured in-depth interviews were conducted with the participants interactively to allow the participants to share their subjective perceptions of the phenomenon via language and communication. In addition, the researcher paid significant attention to non-verbal symbols such as the gestures, looks and body language of the participants during the interviews. These symbolic interactions with the participants enabled the researcher to understand meanings of the CSER phenomenon from the participants' points of view.

## 4.4 RESEARCH DESIGN AND METHOD

The research design is an overall plan of how to answer the research questions, including the data collection and analysis processes, and the ethical issues and constraints encountered (Saunders, Lewis and Thornhill 2012). Research methods are "techniques or procedures to collect and analyse the data" to answer the research questions (Crotty 1998, 3).

Denzin and Lincoln (2011, 243) suggest five basic questions that structure the research design:

- How will the design connect to the paradigm being used; that is, how will the empirical materials interact with the paradigm?
- How will these materials allow the researcher to address the problems?
- What will be studied?
- What are the strategies of inquiry?
- What methods will be used to collect and analyse empirical materials?

The preceding sections have explained and justified the constructivist paradigm and qualitative approach adopted in this study. This section elaborates on how to answer the research questions (see Chapter 1) at the operational level. Qualitative research consists of a set of interpretive, material practices that make the world visible by transforming it into a series of representations, such as field notes, interviews, conversations, recordings, memos and photography (Denzin and Lincoln 2011). The research design needs to enable the information of the senior managers' perceptions of the CSER phenomenon in China to be gathered. Underpinned by the theoretical perspectives of phenomenology and symbolic interactionism, the semi-structured in-depth interview was adopted as the main data collection method in this study.

Qualitative research is emergent; therefore, the design should be flexible to allow the researcher to respond to changing conditions in the process of the research (Merriam 2009; Creswell 2013b) because every research phase may change after the researcher starts to collect data in the field. It is important to have built-in flexibility in the design procedure in order to "account for new and unexpected empirical materials and growing sophistication" (Denzin and Lincoln 2011, 244).

The design framework of this research is illustrated in Figure 4.1. It provides a set of general flexible guidelines of the methods of data collection and analysis. This research has seven key stages.

**Stage 1** consists of a review of the existing CSER literature and research reports on CSER practice in China. The literature review started at the very beginning of the research and was ongoing until Stage 6. The comprehensive literature review helped the researcher to gain a good understanding of CSER research trends, identify the research gaps, develop the research questions and confirm the value of the research. Relevant research reports of CSER practice provided useful information about the real situation of CSER in China (see Chapters 2 and 3 for details). The review of the literature was a continuous and iterative process with the data collection and data analysis. The data were constantly compared with the supporting literature, thus improving the sensitivity to the emerging concepts and themes during data analysis. Furthermore, the literature review was directed by emerging concepts; therefore, it became deeper and more relevant to the findings when the data analysis was conducted.

**Stage 2** is comprised of the preliminary field study and interview protocol design. The preliminary field study included familiarisation field visits to five companies in China and exploratory conversations with business people from these companies. The preliminary field study was valuable because, not only did it confirm the feasibility of this research, but it also provided insight into some emerging issues that were worth observing in practice. The information sheet (see Appendix A) and interview protocol (see Appendix B) were developed after the preliminary field study. Details are discussed in Section 4.5.

**Stage 3** is the pilot study which comprised two interviews with two senior personnel of two companies in China. It was essential to conduct the pilot study in order to examine the feasibility of the research approach and to refine and improve the interview protocol.
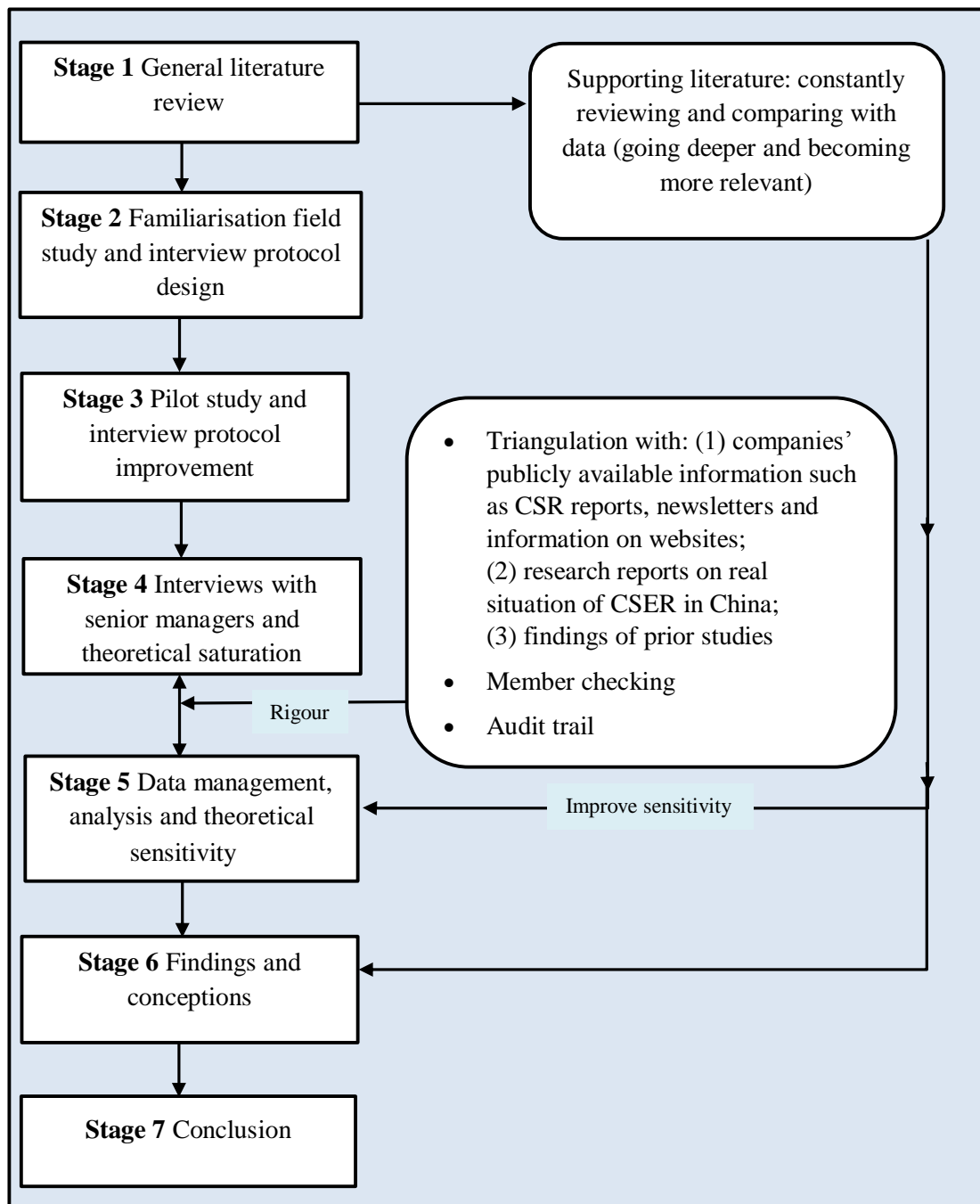
**Figure 4.1: Research design**

**Stage 4** consists of the main data collection through field interviews with the participants. The sampling method utilised in this study was purposeful and theoretical (see subsection 4.5.3). The number of interviews conducted was determined by data saturation, meaning that Stage 4 data collection and Stage 5 data analysis were conducted simultaneously. The interactive process of data collection and data analysis continued until theoretical saturation was reached. Scholars assert that saturation is a point of diminishing returns where new evidence of text data only confirms the

existing categories and themes (Mason 2010; O'Reilly and Parker 2013; Guest, Bunce and Johnson 2006). The details of data collection are elaborated in Section 4.5.

**Stage 5** comprises data management and analysis. This stage started after the first interview and helped to guide the data collection. In collecting and analysing data, guided by the phenomenological and symbolic interactionist perspectives of an interpretivist, the meaning of CSER was developed and constructed based on the personal experiences and standpoints of the participants in the process of interaction between the participants and the researcher. NVivo software was used to manage the data and to explore the emerging concepts and themes from the data. The procedures of data analysis are presented in Section 4.6.

**Stage 6** is the analysis of the findings from the interview data. To interpret the findings, this stage referred to the existing literature and research reports on the real situation of CSER in China.

**Stage 7** presents the conclusions drawn from the analysis. This stage offered insights into the research questions.

## 4.5 SAMPLING AND DATA COLLECTION

The main data collection method of this study was the interview. In exploring the CSER phenomenon in China, where there is a paucity of empirical research in this area, purposeful and theoretical sampling was utilised (Creswell 2013a). The main participants in this study were senior managers who knew about their companies' CSER decisions.

Prior to the main field interviews with participants, a familiarisation study was undertaken to gain insight into the research context, and two pilot study interviews were conducted to refine the interview protocol. From the 'theoretical' concepts emerging from this early analysis, the researcher determines the direction of subsequent data collection and the groups to be compared, hence the names 'purposeful' (Lincoln and Guba 1985) or 'theoretical' sampling (Glaser and Strauss 1967). The main field interviews continued until the data reached saturation point.

**4.5.1 Familiarisation study**

The familiarisation study is essential for field-based research. It provides direct insights into a research context from the inside and enables the researcher to "absorb tacit knowledge, conventions, ways of communicating, rituals, stories, [and] lore" within the unique research context (Whiteley 2002, 11). Whiteley and Whiteley (2006) contend that the familiarisation study can improve reflexive preparation, test the initial formative ideas or research questions and provide a source of information for formulating research questions, and planning the data collection and analysis methods.

The familiarisation study conducted in this research included preliminary informal visits to companies and exploratory conversations with business people in China. The researcher visited five companies including SOEs, listed companies and an international company in Shanghai. She communicated with some employees and/or managers from CSR, public relations (PR) and/or finance departments. In addition, with the help of a friend who was teaching an MBA class at Shanghai University, the researcher gained access after class to informative dialogue with the MBA students, all of whom held positions at middle or senior level in their companies.

The main purpose of the familiarisation study was to collect information in order to refine the initial ideas for the interview questions and interview protocol. In addition, it helped to confirm the feasibility of the study, especially the data collection process.

The researcher had an advantage in accessing these companies through her local networks. She was introduced to the managers of these companies by her colleagues at Shanghai University, her former co-workers at companies in China and also her relatives and friends. "Mianzi (face 面子)" and "Guanxi (relationship 关系)" are important cultural traits in Chinese society and the Chinese business world (Hutchings and Murray 2002; Smith 2012). Chinese people usually avoid turning down the requests of acquaintances as they think it would offend people, causing them to 'lose face' and damaging the relationships. Because the researcher was introduced by acquaintances of these business associates, they all welcomed the researcher to their companies. They all provided the researcher with a copy of their CSR report or annual report out of courtesy. The researcher reviewed these reports after the visits and gained a better understanding of the reporting practice of these companies.

The familiarisation study was a valuable experience. Several emerging issues drew the researcher's attention. Firstly, the terms 'corporate social and environmental report' and 'sustainability report' were not familiar to business people in the field. After the researcher explained the meaning of CSER, they realised it was the report commonly called a 'corporate social responsibility report' in China. The researcher used this feedback as useful information for designing the interview protocol and conducting interviews.

Secondly, the researcher found that staff from PR or CSR departments knew their CSER practice much better than accountants in these companies. At first, the researcher spoke with some accountants but they said they only dealt with financial accounting, not CSER, and they thought that CSER was more relevant to PR or CSR departments. Therefore, the researcher was introduced to employees in PR or CSR departments and learned details about their CSER practice. In addition, some employees in PR or CSR departments mentioned that their senior managers would have better knowledge about the reasons why they were or were not producing CSR reports, as it was management who made those decisions. As this study's objectives sought to explore the motives for and barriers to companies' adoption of CSER in China, these employees' opinions confirmed that senior managers were the appropriate interviewees most likely to be able to provide the data relevant to the research questions.

Thirdly, some staff from PR or CSR departments talked at length about their corporate philanthropy and donations made by their companies, which gave the researcher the impression that philanthropy was undertaken as an important part of CSR by business people in China.

Fourthly, when the researcher talked about her interview plan to business people in the field, several PR staff advised her that their company policy did not allow any interviews to be taped. Therefore, when the researcher sent invitations to potential participants, she mentioned that, although she preferred the interview to be taped, she could talk to them off tape if taping interviews was against their corporate policy or was inconvenient. The researcher believes that this helped to recruit more participants.

Fifthly, the researcher also learned from business people in the field that her translation of "interview" into Chinese as "Cai Fang (采访)" was problematic when approaching potential participants. The translation of the word "interview" in Chinese can be "Cai Fang (采访)", "Hui Tan (会谈)" or "Fang Wen (访问)". At the beginning of the study, the researcher thought it would be better to use more formal words when approaching senior managers, so she chose the word "Cai Fang (采访)". When she proposed interviews ("Cai Fang"), senior managers misinterpreted the request for interviews as being 'official'. Consequently, some senior managers advised that the interviews must first be approved by top management. One senior manager in the field told the researcher that, according to their company policy, he could not accept interviews ("Cai Fang") with the media. The researcher explained that the purpose of the interviews ("Cai Fang") was for her PhD thesis and that she was not working for any newspaper or magazine. He then suggested that she should change the formal word "Cai Fang" to the more informal and casual words "Hui Tan" or "Fang Wen", as this would be more acceptable to senior managers. Consequently, the researcher realised that the word "Cai Fang (采访)" was also associated with the media and journalists who most senior managers would try to avoid as there could be ramifications if they said something wrong. This was very valuable feedback. The researcher changed the word "Cai Fang" to the less formal word "Hui Tan" (the meaning in English is close to "have a conversation") when she later invited senior managers to attend interviews. It turned out that the less formal word was more acceptable.

### 4.5.2 Interview protocol design and information sheet

The interview protocol was designed after the familiarisation study, and minor changes were made after the two pilot study interviews. See Appendix B for the final version of the interview protocol.

As the objectives of this study required flexibility to gather the participants' tacit knowledge about CSER in China, the researcher adopted semi-structured and open-ended in-depth interviews, which provided the opportunity to probe the perceptions of the participants and to build on and seek explanations for their responses (Saunders, Lewis and Thornhill 2012). The semi-structured interview is a combination of the structured and unstructured interview, enabling a structure to the interview while

maintaining some flexibility. Table 4.3 presents the features of these three types of interviews. In this study, the researcher knew the main research questions from the beginning. Furthermore, she had gained some insights into the CSER phenomenon from her familiarisation study, the literature and research reports. Therefore, more open-ended questions were needed to allow the participants' unique views to emerge. As Merriam (2009, 90) states, the semi-structured interview "allows the researcher to respond to the situation at hand, to the emerging worldview of the respondent, and to new ideas on the topic". The goal of the semi-structured interview is "to explore a topic more openly and to allow interviewees to express their opinions and ideas in their own words" (Esterberg 2002, 87).

**Table 4.3: Types of interviews**

| Highly structured interview | Semi-structured interview | Unstructured interview |
|---|---|---|
| • Wording and order of questions are fixed and predetermined.<br><br>• An oral form of a written survey.<br><br>• Usually used to obtain demographic data (age, gender, ethnicity, education, etc.). | • Interview guide includes a mix of more- and less-structured questions.<br><br>• All questions used flexibly without predetermined wording or order.<br><br>• Largest part of interview guided by list of questions or issues to be explored.<br><br>• More structured part is when specific data required from all respondents. | • Open-ended questions.<br><br>• More like conversation.<br><br>• Flexible and exploratory.<br><br>• Used to learn from an interview in order to formulate questions for later interviews when researcher does not know enough about the phenomenon to ask relevant questions. |

Source: adapted from Merriam (2009, 89)

During the interview, the researcher asked all participants several specific questions to guide the interview without a fixed order or wording predetermined ahead of time; subsequent questions were asked based on the answers of the participants and the flow

of the interview. These guiding questions are listed in the interview protocol in Appendix B.

The information sheet (see Appendix A) sent to potential participants explained:

1) The research topic and objectives.

2) The only purpose of the research was for the researcher's PhD study.

3) The researcher's identity as a PhD student at Curtin University and lecturer at Shanghai University.

4) The participants had the right to withdraw from further participation at any time.

5) This research had been approved by the Human Research Ethics Committee of Curtin University.

In addition, the researcher assured that:

1) The confidentiality and anonymity of the participants and their companies would be maintained, and

2) The interview would only be taped with the agreement of the participants.

### 4.5.3 Sample selection

"Sampling and selection are principles and procedures used to identify, choose, and gain access to relevant data sources" from which the data are generated (Mason 2002, 120). The sampling strategy of this study was purposeful and theoretical sampling.

According to Creswell (2013a, 299), "purposeful sampling is a primary sampling strategy used in qualitative research. This means that the inquirer selects individuals and sites for study because they can purposefully inform an understanding of the research problem and central phenomenon of the study". Patton (2002, 230) stated that "the logic and power of purposeful sampling lies in selecting information-rich cases for study in depth. Information-rich cases are those from which one can learn a great deal about issues of central importance to the purpose of the inquiry".

Senior managers were targeted in this study because they, as insiders, are able to provide rich data and "thick description" (Geertz 1973) about CSER in China. Senior managers play the central role in influencing CSR and CSER practice in their companies. As Wood (1991, 691) states, "a company's social responsibilities are not met by some abstract organizational actor; they are met by individual human actors who constantly make decisions and choices". As senior managers are involved in corporate-level decision making, including the CSER strategy of their companies, they are most likely to have a good knowledge of the rationale behind their companies' CSER decisions.

This study seeks to explore both the enablers of and the barriers to CSER in China; therefore, the sample covered senior managers from companies that had issued CSR reports (called reporting companies in this study for convenience) and also companies that had not issued the reports (called non-reporting companies in this study for convenience). As mentioned in Chapter 3, the CSR report was the main means through which companies in China released their corporate social and environmental information. Therefore, to a large extent, the issuance of CSR reports represented a company's CSER practice and the importance that it attached to CSER.

As Lincoln and Guba (1985, 202) stated, "[i]n purposeful sampling the size of the sample is determined by informational considerations. If the purpose is to maximize information, the sampling is terminated when no new information is forthcoming from new sampled units". The goal of this engagement-based field study was to understand the CSER phenomenon in China, rather than to generalise findings to the population, so the data collection ended when the data needed to explain the CSER phenomenon in China reached saturation (Glaser and Strauss 1967).

'Saturation' is a term relevant to theoretical sampling. As one of the key sampling strategies, the concept of 'theoretical sampling' was initially coined by Glaser and Strauss (1967), referring to the process of choosing sequential participants/sources based on the emerging analysis of the data gathered from previous participants/sources. Corbin and Strauss (2008, 143) defined theoretical sampling as

> a method of data collection based on concepts/themes derived from data. The purpose
> of theoretical sampling is to collect data from places, people and events that will

maximise opportunities to develop concepts in terms of their properties and dimensions, uncover variations, and identify relationships between concepts.

Theoretical sampling is an emergent and iterative sampling process in which data collection is concurrent with data analysis (more details are elaborated in the data analysis section of this thesis). The data collection ends when data reach saturation.

Morse (1995, 147) defined saturation as "data adequacy"; that is, collecting data until no new information was obtained. Corbin and Strauss (2008, 263) remarked that saturation is not only the point when no more data are emerging, but "the point in analysis where all categories are well developed in terms of properties, dimensions, and variations. Further data collection and analysis add little new to the conceptualisation, though variations can always be discovered". There is no guideline for an 'a priori' estimation of the sample size required to reach saturation. Instead, saturation is determined by the researcher's evaluation of the adequacy and comprehensiveness of the findings (Morse 1995). In this iterative study, the total sample comprised 21 interviews with senior managers of 21 companies in China, including three general managers, three deputy general managers, four PR directors/managers, two CSR mangers, two development directors, one managing director, one vice president, one HR manager, one deputy head of execution office, one CFO/vice president, one company secretary of board of directors office, and one head of intermediary channel department. The researcher conducted three sets of interviews during the period April 2012–June 2012, in December 2013 and in March 2014 to gather the data after she conducted the familiarisation study from December 2011–January 2012. Tables 4.4 and 4.5 present the profile of the companies for which the participants worked, comprising 13 reporting companies and eight non-reporting companies.

**Table 4.4: Profile of reporting companies in sample**

| Participant No. | Industry Type | Company type | Listing status |
|---|---|---|---|
| 1 | Banking | SOE | Listed on the SSE and the HKEx |
| 2 | Professional services | Foreign MNC | Non-listed |
| 6 | Telecommunications | SOE | Listed on the HKEx and the NYSE |
| 8 | Insurance | SOE | Listed on the SSE, the HKEx and the NYSE |
| 9 | Banking | SOE | Listed on the SSE and the HKEx |
| 10 | Insurance | Foreign MNC | Non-listed |
| 11 | Banking | SOE | Listed on the SSE and the HKEx |
| 12 | Dairy | SOE | Listed on the SSE |
| 13 | Banking | SOE Joint-venture | Non-listed |
| 15 | Electrical appliances | Non-SOE | Listed on the SZSE |
| 16 | Energy and chemical | SOE | Listed on the SSE, the HKEx, the NYSE and the LSE |
| 17 | Real estate | Non-SOE | Listed on the SZSE |
| 20 | Insurance | Non-SOE | Listed on the SSE and the HKEx |

Notes: SOE=state-owned enterprise; MNC=multinational company; SSE=Shanghai Stock Exchange; SZSE=Shenzhen Stock Exchange; HKEx=Hong Kong Stock Exchange; NYSE= New York Stock Exchange; LSE=London Stock Exchange

**Table 4.5: Profile of non-reporting companies in sample**

| Participant No. | Industry Type | Company type | Listing status |
|---|---|---|---|
| 3 | Pharmaceuticals & Cosmetics | Non-SOE | Listed on the SSE |
| 4 | Construction | SOE | Listed on the SSE |
| 5 | Manufacturing | SOE | Non-listing |
| 7 | Retail | Non-SOE | Listed on the SZSE |
| 14 | Retail | Non-SOE | Listed on the HKEx |
| 18 | Fashion | Foreign MNC | Non-listing |
| 19 | Real estate | Non-SOE | Listed on the HKEx |
| 21 | Securities | Non-SOE | Listed on the HKEx |

Notes: SOE=state-owned enterprise; MNC=multinational company; SSE=Shanghai Stock Exchange; SZSE=Shenzhen Stock Exchange; HKEx= Hong Kong Stock Exchange

The researcher initially planned to select the senior managers from the top 100 listed companies, according to their market value at the end of 2011, on the two Chinese stock exchanges (the SSE and the SZSE). However, during the data collection process, the researcher decided to enlarge the sample range. In earlier interviews, some participants remarked that they learned from their foreign peer companies' CSER practice. Hence, the researcher recruited three participants from three internationally well-known foreign multinational companies (MNCs). In addition, to include non-reporting companies, the researcher had to extend the range of sample companies beyond the top 100 companies listed on the SSE and the SZSE. As mentioned in Chapter 3, the SZSE required the 100 companies in the SZSE 100 Index to issue CSR reports from 2009. A large portion of the top 100 listed companies were in the SZSE 100 Index. Many of the top 100 companies listed on the SSE were also within the three categories of companies that came under the SSE's CSR reporting requirement. Moreover, it was extremely difficult to recruit participants from non-reporting companies. To avoid embarrassing themselves, senior managers from non-reporting companies were reluctant to be interviewed about their companies' deficiencies.

In the end, the 13 reporting companies in the sample comprised:
- Nine SSE/SZSE-listed companies, eight of which were in the top 100 listed companies with the remaining one being a company in industrial crisis
- Two foreign multinational companies (MNCs)
- One SOE listed only on overseas stock exchanges
- One non-listed SOE.

The eight non-reporting companies comprised:
- Two SSE-listed companies
- One SZSE-listed company
- Three companies listed on the HKEx
- One non-listed SOE
- One foreign multinational company (MNC).

All the sample companies had national or multinational operations.

Initially, the researcher tried to contact the senior managers of the target companies herself, but she received many rejections. She was informed in most cases that their

senior managers were too busy to do the interviews, with companies offering to have their employees in PR departments attend the interviews instead. In addition, the researcher was advised by some companies that, in accordance with their policies, senior managers could not be interviewed without approval from top management and it could take a long time to receive approval. Due to time and financial limitations, the researcher could not stay in China for a long time to wait. Therefore, she decided to capitalise on her local business network to reach the senior managers of these targeted companies. With the help of her colleagues from the Business School of Shanghai University, her University of Melbourne alumni in China, her former colleagues in companies and her friends in China from CPA (Australia), the researcher was able to recruit enough targeted participants in time. All participants in this study had no connection to each other. They were either approached by the researcher herself or referred by different people.

The process of recruiting participants reflected the importance of "Guanxi (relationship 关系)", which is commonly understood as "network", in the Chinese business world. The researcher would not have been able to recruit enough participants without the help of "the middle person (Zhong Jian Ren 中间人)" which means a person who both parties (in this case, the participant and the researcher) know in common. "Zhong Jian Ren" plays an important role in building trust in the business world in China. Some participants told the researcher that they could trust her because she was introduced by their acquaintances; otherwise, they would not have taken the unnecessary risk of doing the interviews. Senior managers were sensitive to interviews because they thought interviews might cause them undue ramifications if they said something wrong about their companies and the media could use this against them. As the participants had received assurances from the "middle person", they could trust that the researcher would maintain the confidentiality of the identities of both the participant and their company, as the purpose of the interview was only for her PhD study. In addition, due to "Mianzi (face 面子)" culture, Chinese people usually accept the requests of acquaintances to 'save face'. Some participants told the researcher that they would not have taken time out of their busy schedule to do the interview if their friends had not asked them for a favour. One participant arrived at his office from the airport just 15 minutes before the interview. After the researcher expressed appreciation, he said: *I am just back from a business trip and I have two meetings*

*this afternoon. You know, [name of the researcher's friend] is a very good friend of mine. She asked me to do this interview, so I had no choice but to do it".*

### 4.5.4 Main field interviews

Prior to the main field interviews, the researcher conducted a pilot study to improve the interview protocol and practise her interview skills. Two pilot interviews were conducted to check the proposed interview schedule in terms of semantics and the acceptability of interview questions, as well as the interviewer's style and issues such as proxemics (non-verbal communication).

During the period April 2012–March 2014, 21 one-on-one field interviews were conducted with participants from 21 companies in China. All the interviews were conducted face to face with the respondents, with the exception of one telephone interview. Fifteen interviews were electronically audio-taped with the agreement of the participants. The remaining six interviews were not taped because the participants' company policy did not allow interviews to be audio-taped. Instead, more detailed field notes were taken of the answers during these non-recorded interviews. These six participants left some breaks to allow the researcher to write down the main points of their answers during the interviews. For some important answers directly relevant to the participants' perceptions of the enablers of and barriers to CSER, the researcher took down the sentences word by word during the non-recorded interviews. All participants kindly helped the researcher to review the main points of their answers in the field notes to confirm the accuracy at the end of the interviews.

Marshall and Rossman (2010) stated that valuable information can be gained by interviewing organisational elites owing to the position and knowledge that they hold. They also noted the challenges faced by the researcher in interviewing elites, namely, obtaining access to elites, retaining control of open-ended questions and displaying high-level knowledge of the topic to show credibility and competence. As indicated by Kvale (1996), researchers should acquire pre-knowledge about the interview topic. Before meeting the participants, the researcher had reviewed the information on their companies from their websites and their CSR reports, if these had been issued, to gain an insight about the CSER practice of their companies. The familiarisation study and

pilot study conducted before the main field interviews were also very helpful in improving the knowledge and interview skills of the researcher.

Noaks and Wincup (2004, 80) mentioned that, in a semi-structured approach, it is vital for the researcher to establish rapport with the interviewees and to gain an understanding of "the context of the project to facilitate alertness to significant themes". Fontana and Frey (1994) identified the important points of in-depth open-ended interviews as being an understanding the language and culture of respondents, deciding how to present oneself, gaining trust and establishing rapport. Belal and Owen (2007, 480) suggested that "open communication between interviewer and interviewees was arguably encouraged by a sharing of the same cultural background". Kvale (2007) also stated that it is important for the researcher to be familiar with the local situation and the culture to avoid many verbal and non-verbal factors of an interviewee from a different culture going amiss.

All senior managers who participated in this study were Chinese, with the exception of one non-Chinese senior manager who was from a multinational company (MNC). To glean accurate knowledge about participants' understanding of CSER practice in China, the researcher conducted all interviews in the participants' first language, that is, one interview in English and the remainder in Chinese. Although some Chinese senior managers were capable of communicating in English, they felt it was more comfortable and easier to express themselves in their native language. Considering that some important data might be lost due to the language barrier, the researcher decided to take the trouble to conduct the interviews in Chinese, afterwards translating all the transcripts into English. As the researcher is a native speaker of Chinese, she had no problem in fully understanding the participants speaking in Chinese. In addition, although Chinese culture is classified as a high-context culture, the researcher is familiar with the language and cultural background of China. Owing to her own heritage, she was capable of sensing the nuances and informal local contexts in communication and developing a rapport with the respondents.

Being mindful of building a rapport with and gaining the trust of the participants, when she first met the participants, the researcher had informal friendly conversations with each of them about the background of their companies and the researcher's research topic to break the ice and create a more relaxed atmosphere. Before the interviews

started, the researcher stated again that the confidentiality of the data gathered during the interview and the anonymity of the participants and their companies would be preserved, the conversation would only be taped with their agreement and, during the interview, the participants had the right to ask her to switch off the tape or stop the interview whenever they wished.

During the semi-structured interviews, the researcher specified the interview topics and had a clear predetermined focus, but left flexibility in the way that the questions were asked to allow for open-ended discussion of the answers (Kane and O'Reilly-de Brún 2001). Although the semi-structured interviews were guided by the interview protocol, the flexibility in the order in which the questions were asked and the use of follow-up questions provided more opportunities to probe the participants' perceptions (Noaks and Wincup 2004). The researcher was careful to only access the perspectives of participants rather than planting ideas in their minds (Patton 1990). The questions were open-ended, allowing data to emerge from the respondents (Silverman 1993) to explain the CSER phenomenon in the context of China.

As stated by Whiteley et al. (1998), it is essential to examine all the dynamics that constitute conversational interaction when it combines both verbal and body language. They also contended that paralinguistics, proxemics, gender issues, status and timing are important elements that influence the interview, but these elements may not present in the same way nor will they necessarily exist in different interview situations. In this study, the researcher concentrated more on issues of paralinguistics and proxemics. During the interviews, the researcher paid close attention to the participants' body language and their "tone of voice, rate of the utterance, overall pitch and range of the voice as well as facial expressions" (Whiteley et al. 1998, 13). These non-verbal communications about CSER were included in field notes during the interviews. The researcher was also aware of maintaining a comfortable space with the participants, both physically and psychologically.

After the formal interview, the researcher also had some informal conversations with the participants. These conversations happened naturally when the participants showed the researcher around their companies at the end of her visit. In some cases, the researcher also had conversations with other employees about their companies' CSR and CSER practice. In the three interviews conducted in cafés, the researcher

communicated with the participants when they had coffee together after the interviews. It was interesting to find that some valuable ideas emerged from the participants in these casual conversations. The participants were relaxed after the interviews and were more open when the tape was off and the researcher was not taking field notes. The researcher wrote down the main points of these conversations immediately after meeting with the participants. These notes, together with the field notes taken during the interviews, were documented by the researcher within the 24 hours immediately after the interviews to avoid losing vital nuances or cues.

## 4.6 DATA MANAGEMENT AND ANALYSIS

The interview audios and transcripts were electronically stored in USBs with password protection. The USBs, together with the field notes and paper copies, were stored in locked cabinets. Access to the data was only available to the researcher and her supervisors. To ensure confidentiality of the interview data and anonymity of the participants and their companies, all transcripts bore no identification of the participants or their companies.

NVivo, which is qualitative data management software, was used to manage and interrogate the large volume of textual data derived from the interviews and field notes and to allocate data into categories. NVivo provides an organised storage file system that enables researchers to easily access and instantly link any piece of data (Blismas and Dainty 2003) and to form a streamlined structure for discovering emerging themes (Rowe and Guthrie 2009). The emerging categories and concepts from the data were managed and stored in NVivo so they could be easily accessed and not lost.

Each taped interview was first transcribed word for word and then translated into English if it was conducted in Chinese. As suggested by Poland (1995), after each interview was transcribed and translated by external translators, the researcher rigorously reviewed it for errors in order to ensure comparability and dependability. At the beginning, the translators were "fully informed about the nature and purpose of the interviews and the research, including the importance of verbatim accounts" (Poland 1995, 297). In addition, the translators were asked to highlight any words/phrases/sentences on the transcripts if they did not fully understand the meaning. The researcher then clarified these highlighted texts and worked out the best translations together with the translators. By involving external translators from

Shanghai International Studies University, the competency and accuracy of the transcribing and translation were assured, as each interview was double-checked by two different people.

In qualitative study, data collection and analysis proceed simultaneously and data analysis is a recursive and interactive process (Merriam 2009). As asserted by Corbin and Strauss (2008), undertaking data collection and analysis is a circular process as data collection leads to data analysis which generates emerging concepts; these concepts raise questions which lead to further data collection and then further data analysis. This iterative process, as illustrated in Figure 4.2, continues until data reach saturation when all concepts are well defined and organised with no new information emerging. Therefore, the data collection in this study never advanced too far ahead of the analysis. Where possible, the researcher tried to begin analysis of the data collected from the previous interview before the next interview. Although some interviews were scheduled quite close together, the researcher managed to always keep less than two interviews ahead of the preliminary data analysis.

Qualitative data analysis is primarily inductive and comparative, with this able to be achieved by the constant comparative method (Merriam 2009). The constant comparative method of data analysis was proposed by Glaser and Strauss (1967) to develop grounded theory. This data analysis method has also been commonly used in qualitative studies without building a grounded theory (Merriam 2009; Charmaz 2003), as is the case in this study.
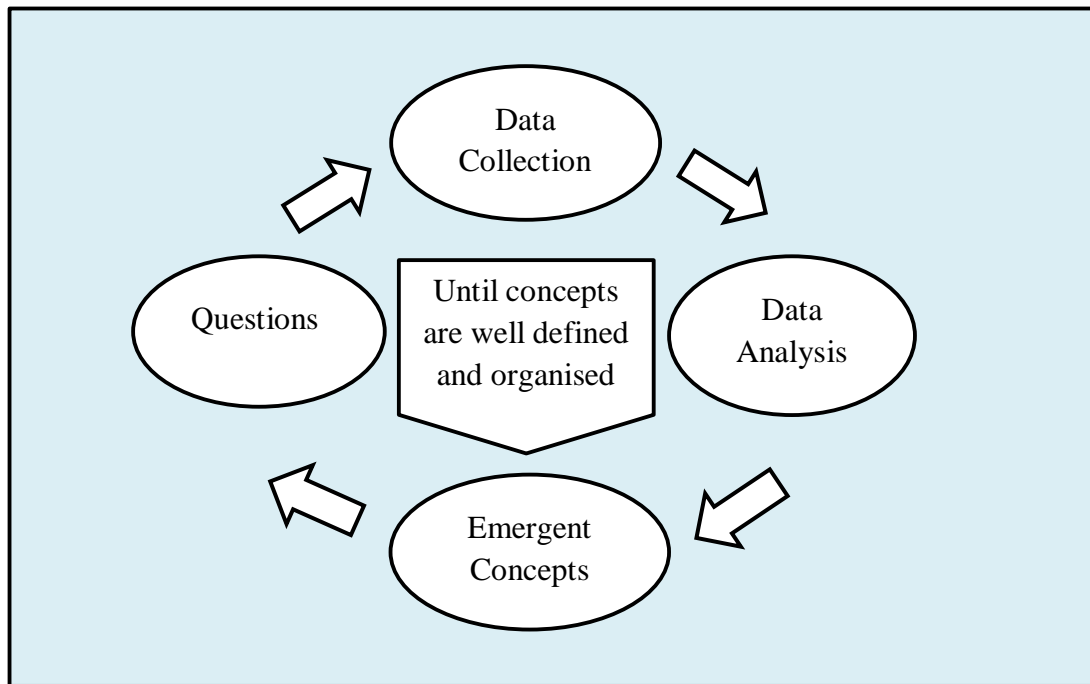
**Figure 4.2: Circular process of qualitative data collection and analysis**

Source: adapted from Corbin and Strauss (2008, 144-145)

The grounded theory method allows the findings from the data to emerge from the participants' own stories. In addition, it offers "content analysis protocols of categorisation, concept formation, [and] theoretical sensitivity" (Whiteley 2004, 32). After both the original and the translated transcripts and field notes were reviewed by the researcher to ensure competency and accuracy, content analysis started, which is "the process of identifying, coding, and categorizing the primary patterns in the data" (Patton 1990, 381).

Qualitative content analysis is "a systematic, replicable technique for compressing many words of text into fewer content categories based on explicit rules of coding" (Stemler 2001). In this study, the process of content analysis involved marking the transcripts with a series of codes which were categorised and analysed thematically to create core concepts through constant comparison and questioning (Whiteley 2004).

Coding is analysis (Miles and Huberman 1994). In this study, it began with identifying units of data relevant to answering the research questions by marking a series of codes, which were sorted to identify potential categories/themes later, and the researcher remained entirely open to any possible codes emerging at this stage. During analytical

coding, which "comes from interpretation and reflection on meaning" (Richards 2005, 94; cited in Merriam 2009, 180), the codes with similar meanings or that were closely related were merged into one category.

After that, the next level of coding conducted was selective coding which is

> an integrative process of selecting the core category, systematically relating it to other categories, validating those relationships by searching for confirming and disconfirming examples, and filling in categories that needed further refinement and development. (Strauss and Corbin 1990, 116)

The research topic of this study is the CSER phenomenon in China. The core categories identified in this study were senior managers' attitudes towards and perception of CSER in China, the enablers of and barriers to CSER in China as perceived by them and an exploration of the strategies for promoting CSER in China in their opinion. Chapters 5 and 6 present and discuss the core categories/emergent themes in detail.

The codes and categories extracted from each subsequent interview were constantly compared with the ones developed from earlier interviews during the iterative process of data collection and analysis. The tentative categories developed were verified in subsequent interviews, while new categories were constantly discovered. Once data collection ended, that is, when the categories/themes reached saturation, the use of tentative categories was carefully tested against the data to substantiate, revise and reconfigure the findings (Merriam 2009).

To present the views of participants through immersion in the data, the researcher needed to demonstrate her sensitivity, which is "the ability to pick up on nuances and cues in the data that infer or point to meaning" (Creswell 2013b, 19). Existing theories and other literature were constantly consulted and compared to improve the sensitivity to concepts in the data (Corbin and Strauss 2008). Some publicly available information such as companies' CSR reports, annual reports, relevant information on the companies' websites, and media and external professionals' publications were used as a source of triangulation and played a supportive role.

## 4.7 LIMITATIONS

Guided by a constructivist paradigm, the knowledge and understanding in this study were co-created by the researcher and the participants (see Section 4.2). The interview, as the main data collection method used in this study, is a process of reality construction to which both the researcher and the participants contribute and by which they are affected (Woods 1992). There were unavoidable limitations as a consequence of the qualitative inquiry strategy adopted.

On one hand, the researcher had potential biases in terms of data collection and interpretation. In this qualitative study, the researcher was the primary instrument of data collection and analysis which gave her advantages such as being able to respond and adapt immediately, to capture verbal/non-verbal communication, to clarify and summarise the information, to verify the interpretation of the data with the respondents and to explore unusual responses from them (Merriam 2009). However, the researcher's own subjectivity, predisposition, assumptions and bias might affect the research findings (Whiteley 2004; LeCompte 1987). As stated by Merriam (2009, 5), "[r]ather than trying to eliminate these biases or *subjectivities*, it is important to identify them and monitor them as to how they may be shaping the collection and interpretation of data". This is in line with the "epoch" or "bracketing" process in phenomenological study (Denzin 1989; Patton 1990; Moustakas 1994). 'Epoch' was defined by Katz (1987, 36-37, cited in Patton 2002, 483) as

> a process that the researcher engages in to remove or at least become aware of prejudices, viewpoints or assumptions regarding the phenomenon under investigation. Epoch helps enable the researcher to investigate the phenomenon from a fresh and open viewpoint without prejudgement or imposing meaning too soon. This suspension in judgement is critical in phenomenological investigation and requires the setting aside of the researcher's personal viewpoint in order to see the experience for itself.

The researcher self-examined her past experiences, biases, prejudices, assumptions and dispositions that were likely to influence the interpretation and approach taken in this study (Merriam 2009; Creswell 2013b). She sought to effectively bracket these dispositions by carefully ensuring that no leading questions were asked during the interviews, having participants confirm the accuracy of the researcher's interpretation of their opinions (see member checks strategy in subsection 4.8.1) and having the

collection and interpretation of data audited by the researcher's supervisor (see peer reviewing strategy in subsection 4.8.1).

In addition, it must be borne in mind that the participants might have been unable or unwilling to provide certain types of information at the interview. As senior managers of their companies, the participants might have withheld certain information that they perceived as a threat to either their reputation or that of their companies. Moreover, influenced by China's "Mianzi (face 面子) culture" (i.e. to avoid embarrassment), they might also have given some responses perceived to be appropriate for the sake of either their image or that of their companies. Some participants, especially senior managers of SOEs, might be inclined to give some politically correct responses both intentionally and unintentionally. Therefore, it was critical that the interview data were triangulated with other sources to verify the data's credibility (see triangulation strategy in subsection 4.8.1).

To minimise the impact of these limitations, the researcher adopted numerous strategies throughout the whole research process to ensure the trustworthiness and credibility of this study. The details of these strategies are discussed in the following section.

## 4.8 RIGOUR IN QUALITATIVE RESEARCH

The goal of this study is to "produce high quality, meaningful and relevant data, such that it is possible to emerge valuable insights" (Whiteley 2002, 3) into the CSER phenomenon in the context of China. To maintain a high quality of investigation, this study adopted the trustworthiness framework of Lincoln and Guba (1985), which comprises four criteria, namely, credibility, transferability, confirmability and dependability. While many perspectives and terms are used in relation to validity and reliability, these four criteria have been widely accepted in qualitative study as substitutes for the terms 'internal validity', 'external validity', 'reliability' and 'objectivity' used in quantitative study (Merriam 2009). As stated by Whittemore, Chase and Mandle (2001), "[c]riteria are the standards to be upheld as ideals in qualitative research, whereas the techniques are the methods employed to diminish identified validity threats".

Lincoln and Guba (1985) also listed the chief strategies/techniques to establish these criteria, such as prolonged engagement and persistent observation, triangulation, peer debriefing and member checks to improve credibility; thick description to facilitate transferability; and audit to increase confirmability and dependability. Figure 4.3 illustrates the strategies/techniques adopted to diminish validity threats and to achieve the four criteria for trustworthiness in this study.

## 4.8.1 Credibility

Credibility is concerned with "the adequate representation of the constructions of the social world under study" (Bradley 1993, 436) and is judged based on the congruence between the findings and the reality (Merriam 2009). This study adopted six strategies to control bias and strengthen credibility.

Firstly, the strategy of **prolonged engagement** (Glesne and Peshkin 1992; Creswell 2013b; Lincoln and Guba 1985) was adopted in this study. The researcher was born and grew up in Shanghai, China. She worked as a business lecturer at Shanghai University and as an accountant at a multinational company (MNC) in China. The researcher's heritage and work experience in China enriched her knowledge and understanding about the Chinese business culture and environment, with this being helpful in building trust between business people in the field and the researcher. In addition, this study involved extensive fieldwork. To take a closer look at the CSER phenomenon in China from the participants' perspectives, the researcher invested much time in visiting companies and interviewing participants. During the period December 2011–March 2014, the researcher went to China four times to conduct fieldwork. In total, the researcher stayed in China for six weeks for the familiarisation study, five months for the interviews and countless hours for informal contacts and discussions with business people in companies in China.
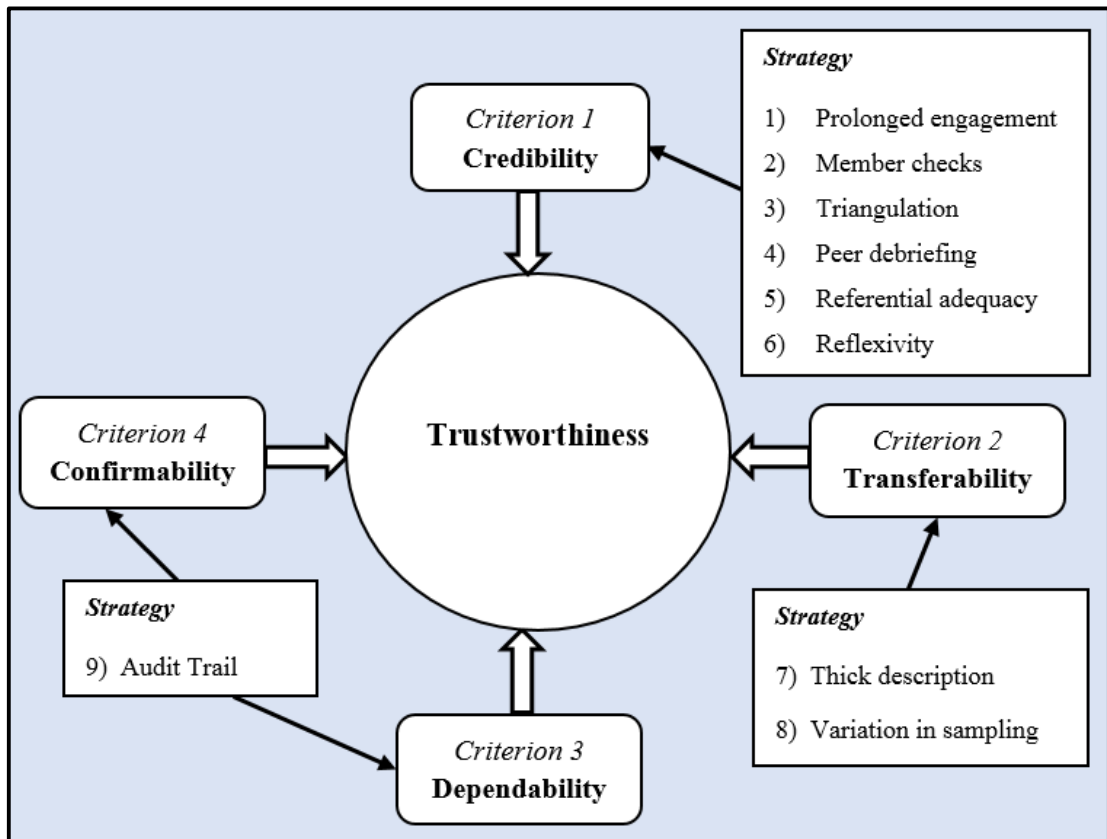
**Figure 4.3: Trustworthiness criteria and strategies**

Sources: adapted from Guba (1981), Lincoln and Guba (1985), Merriam (2009), Creswell and Miller (2000), Creswell (2013b)

Secondly, the strategy of **member checks** (Miles and Huberman 1994; Eisner and Peshkin 1990; Lincoln and Guba 1985) used in this study involved interactively probing the interview data to verify the accuracy and plausibility of participants' meanings. After the non-taped interviews, the participants immediately helped to verify the accuracy of all their answers as recorded in the field notes. Participants in the taped interviews also helped to confirm the main points of their answers to the main research questions immediately after the interviews. Having participants verify their answers straight after the interviews was more salient than post-interview assessment as time lags might cause participants to forget what they meant. The field notes were written up after each interview on the same day, while the tapes of interviews were listened to within 24 hours to identify any further clarifications needed from the participants. When needed, several follow-up informal interviews were conducted via telephone with some participants to further verify their meanings. Moreover, the researcher discussed the findings of the study with some participants,

who were available for her to meet during her stay in China, seeking their opinions on the interpretations of the data derived.

Thirdly, the strategy of **source triangulation** was used to verify the construction of reality from multiple sources (Mathison 1988; Creswell and Miller 2000; Johnson 1997; Denzin 1989). In addition to the primary data from interviews with senior managers of companies in China, other data were collected from multiple sources, mainly including: (1) observations and informal conversations with staff and managers of companies in the field; (2) publicly available information such as CSR reports, annual reports, newsletters and information on websites of the companies of the interviewed participants, and external documents such as newspapers, media reports and government publications; (3) Chinese professional institutions' statistical reports on CSER practice in China; (4) findings of quantitative empirical studies of CSER in China, including publications in English and domestic academics' publications in Chinese; and (5) discussions with MBA students at Shanghai University who were also managers of companies in China.

Fourthly, the **peer debriefing** (Lincoln and Guba 1985; Glesne and Peshkin 1992; Merriam 2009; Creswell 2013b) strategy played an important part in supporting the credibility of this study. The translators from Shanghai International Studies University were native speakers of Chinese and sensitive to Chinese culture. Their involvement in transcriptions and translations of the interviews and field notes ensured both quality and accuracy. In addition, the researcher consulted with some academics from universities in China who were sensitive to Chinese culture and who had extensive research experience in corporate governance and management of Chinese companies, as well as a qualitative researcher at Curtin University. The researcher's supervisor also followed the whole process of data collection and analysis to ensure that any bias in data collection and interpretation was eliminated or minimised.

The fifth strategy was **referential adequacy**. The findings of this study were produced from interview transcripts and presented as text and narrative to provide the true voice of the participants. The narrative can be retrieved electronically from the interview transcripts, which have been stored in NVivo and, in turn, can be validated against the taped interviews and the field notes.

The sixth strategy was **reflexivity** which is "the process of reflecting critically on the self as a researcher, the *human as instrument*" (Guba and Lincoln 2000, 183). This was discussed in Section 4.7 'Limitations'.

### 4.8.2 Transferability

Transferability refers to the "degree of similarity between sending and receiving contexts" (Lincoln and Guba 1985, 297). It deals with "the extent that the researchers' working hypotheses about one context apply to another" (Bradley 1993, 436). As purposeful sampling is employed in qualitative study to seek an in-depth understanding of the particular issues in a specific context, generalisation is not applicable (Merriam 2009).

In this study, **thick and rich descriptions** (Merriam 2009; Creswell 2013b; Erlandson et al. 1993; Lincoln and Guba 1985) of the research method, participants, setting, background and context were provided and the findings were supported with adequate quotes from interviews, field notes and relevant documents. The detailed descriptions would enable a trained researcher to replicate the procedures and processes used in a different cultural context and would allow other researchers to appraise the applicability of the findings to other cases.

In addition, **variation and diversity** were purposefully sought **in sample selection** (Merriam 2009). In this study, replicable procedures cover participants from different categories of companies in various industries.

### 4.8.3 Dependability and confirmability

Dependability refers to "stability of the data over time" (Guba and Lincoln 1989, 242). It is concerned with "the coherence of the internal process" and "the way the researcher accounts for changing conditions in the phenomena" (Bradley 1993, 436).

According to Guba and Lincoln (1989, 243) confirmability means "data (constructions, assertions, facts, and so on) can be tracked to their sources, and that the logic used to assemble the interpretations into structurally coherent and corroborating wholes is both explicit and implicit in the narrative of a case study". It is about "the extent to which the characteristics of the data, as posited by the researcher, can be confirmed by others who read or review the research results" (Bradley 1993, 436).

To enhance dependability and confirmability, the researcher left a meticulously documented **audit trail** to provide the pathway of the research process and the decision making about data analysis for tracking and checking by other investigators, in particular, by her supervisor to ensure consistency and internal coherence (Lincoln and Guba 1985; Miles and Huberman 1994; Merriam 2009). This audit trail would enable other investigators to "explore the process, judge the designs that were made, and understand what salient factors in the context led the evaluator to the decisions and interpretations made" (Guba and Lincoln 1989, 242). In this study, the researcher has kept the audit trail in NVivo with all the codes and categories traceable to transcripts of interviews, field notes and other relevant documents.

## 4.9 ETHICAL ISSUES

This research was conducted in accordance with Curtin University's ethical guidelines and the Australian Code for the Responsible Conduct of Research. After candidacy was approved, the Application for Approval of Research with Minimal Risk (Form C) was submitted internally to the Ethics Coordinator and renewed twice when it was due. All research data are stored in the university's locked cabinet archive in Curtin University's Graduate School of Business for at least five years from the date of thesis publication in accordance with guidelines under Section 2 "Management of Research Data and Primary Materials" of the Australian Code for the Responsible Conduct of Research. The digital data are password-protected. Anonymity and confidentiality of the participants and their companies have been ensured at all times. Prior permission was obtained from the participants and their corresponding companies in the case of audio-taping the interviews. At the beginning of the interview, all participants were informed about the purpose of the interview and their right to stop the interview at any time.

## 4.10 SUMMARY

This chapter has outlined the research methodology of the study. It began with a description of the constructivist paradigm that guides the study's methodology, and then elaborated the research design including the familarisation study, theoretical and purposeful sampling, the semi-structured interview as the main data collection method, and data management and analysis utilising NVivo. In addition, the chapter explained the nine strategies (see Figure 4.3) adopted by the study to meet Lincoln and Guba's

(1985) trustworthiness framework with its four criteria: credibility, transferability, dependability and confirmability.

Using the methodology described in this chapter, Chapter 5 presents the preliminary findings that emerged in the study and Chapter 6 provides a discussion of the discoveries in order to explain the CSER phenomenon in China.

# CHAPTER 5: FINDINGS[1]

## 5.1 INTRODUCTION

This chapter presents the findings from the semi-structured interviews with 21 senior managers of companies in China. Thirteen participants, that is, participants Nos. 1, 2, 6, 8, 9, 10, 11, 12, 13, 15, 16, 17 and 20 were from companies that had issued CSR reports. Eight participants, namely, participants Nos. 3, 4, 5, 7, 14, 18, 19 and 21 were from companies that had not yet done so by the time of the interviews. As previously mentioned, for convenience, the companies that had issued CSR reports are called 'reporting companies', while the companies that had not are called 'non-reporting companies'. The profile of these participants/companies are listed in Chapter 4, section 4.5.3.

The findings, refined from the interview data, attempt to answer the following three major research questions (RQs) from a senior manager's perspective:

**RQ.1:** What are the enablers of CSER for companies in China as perceived by senior managers?

**RQ.2:** What are the barriers to CSER for companies in China as perceived by senior managers?

**RQ.3:** What are the more effective ways forward to achieve improved CSER in China?

The chapter starts in Section 5.2 by presenting the participants' general perceptions of CSER in China, followed by the main enablers of and barriers to CSER revealed in Sections 5.3 and 5.4, respectively. Section 5.5 then provides the participants' suggestions for promoting CSER in China. Lastly, Section 5.6 concludes this chapter.

To present the true voice of the participants, extensive quotes from the interview transcripts are presented alongside each category. The utterances of different participants are separated by a punctuation mark "/" and shown in italics. The participants are identified by the numbers from 1 to 21 for purposes of anonymity. In addition, as mentioned in Chapter 3, corporate social and environmental reporting

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[1] Part of this chapter has been presented at:

Yu, Shengli, Anna Rowe, and Mohammed Quaddus. 2015. "Managerial Perceptions of Corporate Social and Environmental Reporting in China." Presented at *The British Accounting and Finance Association (BAFA) Conference*, Manchester, UK.

(CSER) is commonly known as corporate social responsibility (CSR) reporting in China. Therefore, 'CSR reporting' is the term used instead of 'CSER' in the interviews.

## 5.2 MANAGERIAL PERCEPTIONS OF CSER

This section presents the participants' general perceptions and attitudes towards CSER in China. Open-ended questions were asked to find out if the participants saw a need for companies in China to engage in CSER.

The majority of the participants had positive attitudes towards CSER. Almost all participants from the reporting companies (with the exception of Participant No. 17) were supportive of CSER in China, as reflected in the following quotes:

*It [CSR report] is a trend ... I think it is necessary to do the reporting. [Participant No. 2] / I think it is necessary to issue such a report. [Participant No. 6] / I think it [CSR reporting] is necessary. Currently, many companies have released such reports. [Participant No. 8] / I think it is necessary to release such a report. [Participant No. 9] / I think it [CSR reporting] is something good for them [companies] to have. [Participant No. 10] / I think CSR reporting is meaningful for both companies and their stakeholders. [Participant No. 11] / I think companies in China should release this report. [Participant No. 12] / I think there is a need for companies to do CSR reporting. [Participant No. 13] / If they [companies] can go forward to release CSR reports, it will be an inspiring thing ... it means they are pursuing progress, which is gratifying. [Participant No. 15] / Of course it [CSR reporting] is valuable. [Participant No. 16]*

On the other hand, none of the participants from non-reporting companies was opposed to CSER and many regarded it as a good practice, as indicated in the following quotes:

*We can say we are not against CSR reporting. [Participant No. 3] / I think CSR reporting is a good thing ... from the perspectives of the development of society and the country, there is a great need for CSR reporting. [Participant No. 4] / Of course if you report your situation to the public, it can be viewed as a good practice. [Participant No. 5] / My answer is of course the reporting is very important to every company. [Participant No 19]*

Some justifications given by the participants in support of CSER were as described below. Firstly, CSER could be a good way for companies to communicate with their stakeholders, as stated in the following quotes:

*This is because the public and society have expectations on companies' performance in terms of social responsibility. The release of the report can be viewed as a response to the expectations of related stakeholders ... this report is also a communication tool with them [stakeholders] and a channel for a company to establish its brand. [Participant No. 8] / CSR reporting is a tool for companies to communicate with the outside world ... It helps to prevent the risks, disclose the information to the outsiders and let investors get symmetrical information. [Participant No. 9] / This report provides them [stakeholders] such a chance to know the companies better. [Participant No. 11]*

Secondly, CSER could improve companies' CSR awareness and impel them to give more consideration to their CSR practices, as mentioned by a number of participants in the following quotes:

*It [CSR reporting] will constrain the behaviour of companies and impel them to consider more about the impact of their business operation on their stakeholders. If a company would like to release such a report, it must have some good news to say, and it should try to avoid being involved in any practice that may cause negative news. So, the company will pay attention to its CSR practice in its daily business operation ... this report is helpful to improve their [companies'] awareness of CSR. [Participant No. 12] / Because the release of such a report would not only enhance their [companies'] social and environmental awareness, but also force them to pay more attention on these aspects. [Participant No. 14] / CSR reporting can be regarded as a way to hold companies to account for their conduct to outsiders, to the government, to shareholders and society, especially to the public. [Participant No. 16] / On the other hand, it [CSR reporting] is a self-constraining behaviour for companies. [Participant No. 19] / If I issue a CSR report of my own accord, to me it is a self-constraint of CSR. [Participant No. 21]*

Thirdly, CSER could be beneficial to the company image. For example, Participant No. 7 stated: "*Perhaps there is a need [for CSR reporting] from the perspective of*

*building a complete public image, since the public may not know enterprises' practice very well"*.

Although most participants saw CSR reporting as a nice thing to do, many did not think that it was imperative for all companies. Some participants mentioned that it was necessary for companies in heavy polluting industries and larger-sized companies to release CSR reports owing to their larger impact on society. Typical quotes are as follows:

*It is necessary to the industries which have heavy pollution on the environment ... such as smelting, coal, mining and our construction industry as well. [Participant No. 4] / I think it is probably not necessary for everybody. I think it is desirable for companies dealing with social issues, like insurance companies, where they provide protection ... oil companies, they drill to get oil, I think they owe the people and they should have social responsibility reporting ... I feel oil companies, chemical companies, these companies have a big impact on society and the environment as well, should be encouraged to have it [CSR reporting]. [Participant No. 10] / It is necessary for companies that have a large negative impact on the environment such as heavy polluting industries and the manufacturing industry to release CSR. [Participant No. 14] / It [CSR report] is necessary for big companies which have reached a certain scale, since they have a large influence on the outside world, involving lots of the general public. For SOEs and the companies of much public interest, in particular, I think it as necessary for them to issue [CSR reports] ... as for small businesses, like small private business, I don't think it is necessary for them to do so ... Company size is one point and another is the influence of the business ... the less the products or services your company provides are relevant to people's livelihood or the government, the lower your influence is ... there may not be that much desire for the report. [Participant No. 16] / I think it [CSR reporting] is imperative for the companies that have a larger negative impact on society and environment, for example, chemical companies, oil and gas companies and other companies in heavy polluting industries. [Participant No. 20]*

Of all the participants, only Participant No. 17 directly said that he did not support CSER. Although the construction company for which he worked had already issued their report as required by the stock exchange regulator, he did not see the real value

of such a report. He gave two main reasons against CSER: firstly, a company's main responsibilities were not to the general public, but to make a profit for its shareholders and to provide good products to customers; and, secondly, as perceived by him, it was a waste of resources as there was no need for this information. He stated:

*I don't think our investors, clients, employees or the public will genuinely care about such information, so I don't think it is valuable ... What shareholders and investors care about is profit but not these things ... I think most companies do the reporting just to deal with the regulation and requirement ... companies should focus on the products and services they provide ... I don't think it is worthwhile to invest manpower, material resources and time in such a report. [Participant No. 17]*

Many other participants also considered there was a low demand for CSR reports in China. For example, a participant from a multinational company (MNC) addressed the problem in the following statement, although he was in favour of CSER in China:

*But [if] you ask me whether it [CSR reporting] is absolutely necessary, I probably don't see it as absolutely necessary ... again, there is supply and demand. Is there a demand by our average citizen for environmental and social responsibility reports? I don't think so. [Participant No. 10]*

In addition, four participants were of the opinion that a company's actual actions are more important than its CSER and that the CSR performance of a company cannot be measured only by a CSR report. They stated that:

*I don't think it is that important whether a company releases its CSR reports or not. What's more important is whether they undertake their responsibility to society ... some companies haven't released it, but they perform their social responsibility well; actions are what we really appreciate, especially active actions. [Participant No. 1] / Not releasing such a report does not mean [our company] does not undertake our social responsibility. [Participant No. 3] / It is regarded as an unquestionable moral truth for SOEs to shoulder social responsibilities ... SOEs should take social responsibilities since they came into existence, which is not decided by a report, but by their obligation. [Participant No. 5] / I believe a company's real actions matter more than words ... you cannot judge a company's CSR performance only based on its CSR reporting. [Participant No. 18]*

In summary, the general managerial perceptions of CSER in China, as offered by the participants, are as follows:

- The majority of the participants were in favour of CSER in China.
- The main justifications why companies should produce CSR reports were as follows: they are a communication tool with stakeholders; they can impel companies to pay more attention to their CSR practices; and they are beneficial to the company image.
- Some participants believed that CSER should not be obligatory for all companies in China, but regarded them as necessary for companies that have a large impact on the environment and society.
- The main reasons against CSER or justifications for why CSER was not imperative for companies were real actions matter rather than CSER; a lack of demand for CSR information; a waste of resources; and not companies' main responsibility.

## 5.3 MANAGERIAL PERCEPTIONS OF ENABLERS OF CSER IN CHINA

Following Section 5.2's presentation of the participants' personal opinions on CSER, Sections 5.3 and 5.4 aim to explore their understanding of the CSER phenomenon in China by identifying the enablers and barriers leading to its current status. Open-ended questions were asked to find out what they perceived as the main enablers of and barriers to companies' adoption of CSER in China.

As stated in Chapter 2, the number of companies producing CSR reports in China has increased rapidly in recent years. Emerging from the interview data, the main enablers driving companies' adoption of CSER in China were both internal and external, including regulations and government influence; management awareness; benefits to company image; peer pressure/reporting by peers; and public pressure on controversial companies (see Figure 5.1).
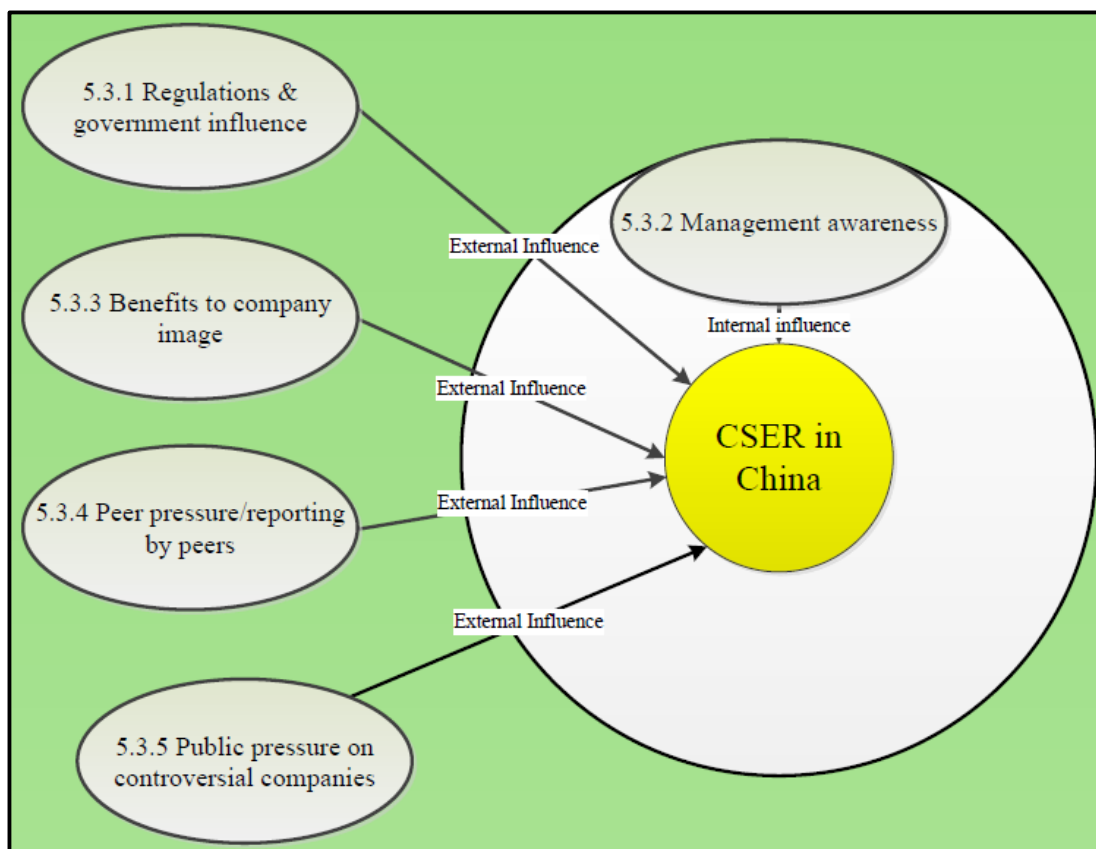
**Figure 5.1: Enablers of CSER in China**

### 5.3.1 Regulations and government influence

The influence on CSER of the government and regulators in China was widely accepted by the participants. A clear majority (fifteen) out of all participants attested to the fact that regulations and/or government advocacy were a large driving force towards CSER in China. This result is in accord with the dramatic increase in CSR reports in China after the implementation of reporting regulations for certain categories of companies as mentioned in Chapter 3.

Eight participants from reporting companies and three participants from non-reporting companies attributed the massive increase in CSR reports in China to the reporting requirements issued by the SASAC and the stock exchange regulators. Some representative quotes are as follows:

*Objectively, there are related laws or regulations. For example, some listed companies such as financial companies listed on the SSE and some categories of companies listed on the SZSE are forced by the regulations to issue CSR reports. Recently, there are also some regulations for SOEs. Objectively, it [CSR reporting] is unavoidable.*

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*[Participant No. 2] / In 2008, the SASAC issued a document requiring SOEs to pay attention to social responsibility ... Large CGEs, such as Baosteel [Corporation], Sinopec [Corporation]and PetroChina [Corporation], are required to disclose their social responsibilities to the public. [Participant No. 6] / Mandatory regulations are an invisible pressure on the enterprises. [Participant No. 7] / In 2008, the SSE issued a mandatory requirement, forcing some listed companies to disclose the report ... you can see now the listed companies release the report actively. It is much related to the requirements of the SSE. [Participant No. 8] / A main reason for some companies to release the reports is to meet the government policy and requirement of regulators. Institutional constraints account for the release. [Participant No. 9] / The China Banking Regulatory Commission (CBRC) requires some banks to release CSR reports before 30 June every year, and the SSE requires listed banks to release the report before 30 April every year ... I think the largest driving force is the policy requirement. After the stock exchange regulators issued requirements in 2008, many companies have released their CSR reports ... till now, many companies only do CSR reporting to meet the requirements of the regulators. [Participant No. 13] / One reason is to respond to the requirement of the SASAC. [Participant No. 16] / I think the main reason that companies issued this report was in response to the requirements of the SSE and the SZSE. You see, before the requirements, very few companies had issued the report. [Participant No. 17] / Some companies are under regulations to release CSR reports. [Participant No. 18]*

In addition to formal regulations for CSR reporting, the Chinese government's advocacy was regarded as a strong enabler of CSER in China. Four participants from reporting companies and one from a non-reporting company remarked on the government influence on companies' CSR practice and reporting, especially on SOEs, through the national policy. Sample quotes are reproduced as below:

*We should deeply believe and fully implement the government's macro policies, because these policies must be beneficial to the development of our country ... because the government places emphasis on these aspects ... our credit granting department at headquarters has already studied the national development policy. The government wants to cut down carbon emission, which is a main point of our future development ... there is no doubt of our main direction; we follow the government. [Participant No. 1] / The government plays an important role in promoting the reporting. [Participant No.*

*8] / Our enterprise is an SOE; we definitely respond to the call of the government. [Participant No. 12]*

Two participants mentioned that some senior managers of SOEs are also government officers so, for the sake of their career development, they would actively respond to the call of the government which is their leader. For example, Participant No. 11 from an SOE talked about the influence of the government on their CSER practice in the following quote:

*I shall say, from the beginning, it was a political need. In 2006, the State Grid [Corporation] of China started to release CSR reports, which was highly praised and encouraged by the Prime Minister Wen Jiabao. So, in 2007, our bank and XX Bank actively responded to the call of national policy and started to involve ourselves in CSR reporting ... The most important enabler is the promotion of national policy. The encouragement of the Prime Minister Wen Jiabao is a very important enabler. You know, subordinates will try to figure out the intention of the leader. You see that after the State Grid [Corporation] received high praise and encouragement because of the CSR report it issued in 2006, other companies have started to follow it.*

The largest driving force of CSER in China was found to be reporting regulations and government influence; not only was this perceived by the majority of the participants but, as mentioned earlier, it was also proved by the historical increase of CSR reports after the implementation of regulations and government advocacy.

**5.3.2 Management awareness**

Management awareness was revealed in this study to be another strong driving force of CSR practice and reporting in China. As the participants were senior managers directly involved in their companies' decision making, their awareness of CSR and CSER was perceived as a critical determinant of whether and how much CSR and CSER were undertaken by their companies. The influence of senior managers on the adoption of CSER was mentioned by one-third of the participants. This is demonstrated in the following typical quotes:

*Frankly speaking, at operational level, it [CSR reporting] highly depends on the opinion of top management as different bosses make different decisions which lead to*

*totally different practices. [Participant No. 2] / One of the reasons [why companies engage in CSER] is that these companies do have a strong sense of responsibility. There are maybe some entrepreneurs who do care about the influence of their companies on society. [Participant No. 4] / But I think that what really matters is the awareness of the top management of enterprises and the whole society. [Participant No. 6] / I think it's relevant to the management, senior managers, directors, the board and major shareholders. In fact, it is a reflection of the management culture. It is actually an expression of management ideas. Voluntarily issuing the CSR reports means they would like to accept their social responsibility and tell the public what they have done ... different companies have different motivations, I think it's mainly decided by the ideas of their top management. [Participant No. 7] / I think this is relevant to the awareness of the management of companies. [Participant No 9] / Our top management's awareness of CSR has improved. [Participant No. 11] / Our chairman of the board once said in any case we must do it [issue CSR reports] ... our top management has paid high attention to it. [Participant No. 15]*

As senior managers of their companies, the participants' level of awareness had influence on their companies' CSER practice. Eight out of thirteen participants from reporting companies talked about their corporate responsibilities towards society and showed strong CSR awareness. Over half of these participants were from SOEs, which might be relevant to the government advocacy of CSR. Two examples of quotes are as follows:

*Of course we need to consider our social responsibilities ... economic development can be delayed, but the environment must be sustainable. When we select the projects to provide loans and grant credits, we pay much attention to their influence on society and the environment ... Our bank, especially as a state-owned bank, has credit acceptance guidance every year, which requires us to consider whether the projects have positive influence on society, resources and the environment. [Participant No. 1] / Our bank's culture lays emphasis on CSR. We always advocate combining CSR into our corporate development strategy with the guidance of the Scientific Outlook on Development, and endeavour to create more value for our shareholders, customers, employees and the society ... Our bank as a whole has fostered a strong sense of social responsibility ... As a large state-owned commercial bank, we have the unavoidable*

*responsibility of a corporate citizen to our country and people. Our operating strategy is to maximise the benefits of our stakeholders including shareholders, customers and employees and so on. So, we pay close attention to our responsibilities to society, our people and our country in our daily operation. [Participant No. 11]*

In addition, some participants not only acknowledged their accountability towards their stakeholders, but also showed gratefulness for their support. They expressed their willingness to actively fulfil their CSR as a return to society and to undertake CSER to communicate with stakeholders about their practices. For example, Participant No. 12 stated:

*The success and accomplishment of our enterprise rely on the support of our shareholders, investors, employees and society. So, as a return to society, we actively undertake our social responsibilities all along. Our enterprise always has the value of dedication to society to mould ourselves ... We always follow the principle of providing good products with a good heart and fulfil our social responsibilities in aspects such as ensuring food safety, caring for employees, protecting the environment and servicing the society. CSR reporting gives our customers, investors and other stakeholders a chance to know our CSR awareness and practice. It is a good communication tool ... We engage in CSR reporting completely of our own free will. The goal of our enterprise is to be an outstanding corporate citizen fulfilling social responsibilities in all aspects. The social responsibilities we take on are not only charitable donations, but are also long-term responsibilities to our customers, employees, shareholders, the community, the government and the environment.*

Moreover, a few participants stated that CSR was part of their company culture. For example, Participant No. 2 from a multinational company (MNC) told the researcher that the company for which she worked had a professional department dealing with CSR issues, and she explained her understanding of CSR as follows: *"CSR is not simply equal to donating money or doing charity, which is a very narrow concept; CSR has to be integrated with the company's long-term strategies and development plans, since it is a vital factor of corporate governance".*

In addition to claiming that they had attached importance to CSR, many participants from reporting companies also talked at length about their companies' CSR practices, such as the Green Action Plan to reduce energy consumption in their production and

operation, and active involvement in various philanthropic donations and social charities and programs to interact with local community residents. For example, two participants said:

*During the World Expo, we provided more than 30,000 volunteers, those who now still maintain and carry forward the volunteer spirit ... 13 subsidiaries in Shanghai have programs concentrated on the interaction with community residents, such as volunteer teaching for migrant children ... [Participant No. 6] / We are actively involved in philanthropic donations and social charity. Last year, over 4,000 volunteers and up to CNY 28.16 million from our bank were devoted to public welfare sectors. [Participant No. 11]*

A participant from a large SOE bank explained that, in order to promote environmental protection and social well-being, the bank had preferential policies to support projects relevant to photovoltaic power, wind energy, solar energy and also to indemnificatory housing. He also remarked that *"[s]ome small banks may care more about profit, some heavy polluting projects may still be granted credits, but this will never happen in our bank or other state-owned banks" [Participant No. 1].*

Senior management awareness and support were regarded as being crucial to the implementation of CSR and CSER at their companies. Evidently, many participants who were senior managers from reporting companies showed a high level of CSR awareness and a strong supportive attitude towards CSER. Furthermore, most of the reporting companies had undertaken many CSR activities which were disclosed in their CSR reports and on their websites.

### 5.3.3 Benefits to company image

Benefits to company image turned out to be another primary driving force of CSER in China. Although management's intrinsic awareness could be a large enabler of CSER, many participants remarked that this might not be strong enough to drive the CSER practice in some companies. Some participants admitted that companies always considered the returns before they allocated the resources, as highlighted by Participant No. 7 from a non-reporting company in the following statement:

*After all, all enterprises aim at making profit and, if issuing the reports can bring benefits to companies, they will be willing to issue the reports ... Frankly speaking,*

*companies always do things beneficial to themselves. No matter what they do, they always think whether it is good for the sake of their business. If the reporting is bad for the enterprise, they will never engage in it.*

Seven out of thirteen participants from reporting companies mentioned that CSER was beneficial for company brand image. These participants saw the servicing of CSER as a tool of publicity and advertising, as indicated in the following sample quotes:

*This report is also a communication tool with them [stakeholders] and a channel for the establishment of a company's brand. [Participant No. 8] / We have begun to proactively disclose information via CSR reporting and take it as an instrument to promote our image and restrain our behaviours. [Participant No. 9] / It's about company image. To give a good impression to the customers is another motivation ... It helps us to let our stakeholders know our CSR practice, which is beneficial to our corporate image and brand construction. [Participant No. 11] / CSR reporting is helpful to improve company image ... they [many companies] only take it as a tool to promote their corporate image. [Participant No. 13] / If you issue your CSR report, whether you are listed or not, you can broadcast to the outside that your company has been geared to international norms, which is pretty good. [Participant No. 15] / Also, it's to enhance our social image. [Participant No. 16] / Some companies may do so [issuing CSR reports] for the sake of their company image. [Participant No. 20]*

Importantly, five out of eight participants from non-reporting companies also considered that a proportion of companies issued their CSR reports mainly for the sake of their company image. Some sample comments are:

*Some companies [issuing CSR reports] are just for reputation. [Participant No. 3] / [CSR reporting] can also be advertising for corporate image. [Participant No. 4] / These [CSR] reports will give the enterprises the advantage of maintaining better customer relationships and public image ... There are also other companies, the reason for them to engage in CSR reporting is mainly for improving their image, packaging and advertising themselves. [Participant No. 7] / Some reporting companies have their [CSR reports'] purpose as propaganda for their image. [Participant No. 18] / Companies will consider what the real benefits are if they report ... including economic benefit, goodwill and company image. [Participant No. 21]*

In addition, the researcher reviewed the CSR reports and websites of the sample companies, and found that many mentioned the CSR-related awards that they have won. One participant told the researcher that their top management were keen to see their CSR reports win some awards from the media or some government institutions which would be good advertising for their company. During the interviews, four participants from reporting companies talked about the CSR awards won by their companies, or showed their desire to win these rewards, as indicated in following quotes:

*As you can see from our website, in both Hong Kong and Mainland China, our company has won several CSR awards. [Participant No. 2] / Our entire corporation has also received much recognition, including a China Charity Award, awards from the Dow Jones Sustainability [Indices], a local model civilisation unit, an outstanding CSR report award and so on ... I think it is necessary to issue such a report. For example, this year all the contestants of Shanghai model civilisation units are only considered if they have issued this report. [Participant No. 6] / Because the media organised some rating and forums of CSR reporting, which bring some pressure on companies ... Also, there are some awards. All these are both pressure and encouragement to companies. [Participant No. 8] / In 2011, we won 10 CSR awards from various organisations and the media ... Winning these awards is helpful in improving company image, brand image and will benefit public relations and marketing as well. [Participant No. 11]*

Moreover, from the departments responsible for preparing CSR reports, it could be seen that enhancing company image was a major motivation for companies to engage in CSER. In many companies, it was the public relations (PR) department, brand publicity department, brand promotion department or corporate communication department that took the responsibility to produce their CSR reports. Participant No. 2 from a multinational professional services company that provides business consultancy also remarked that:

*Most companies do not have a separate CSR department; their CSR reports are basically PR-oriented, are under the charge of corporate communication or PR departments. As they [do CSR reporting] for their corporate image, it's driven by PR ... Generally speaking, CSR is a relatively new concept. Many companies take it*

*as a supplement to public relations management, merely doing a little charity or enhancing company image by media reporting, which is a very narrow concept.*

A number of participants perceived that CSER was beneficial to company image, stating that a primary motive for companies in China to publish their CSR reports was to enhance their company image.

### 5.3.4 Peer pressure/reporting by peers

Peer pressure/reporting by peers surfaced as another major driving force of CSER in China. Seven out of thirteen participants from reporting companies talked about their peer companies' reporting practices. It seems many companies were keen to keep up with their peers' practices or with the trend of CSER in their industries.

For example, Participant No. 13 from a non-listed bank, which was not subject to any requirements but chose to voluntarily publish its CSR reports, stated that all the banks listed on the SSE were required to issue CSR reports: he added *"[w]e can feel the pressure from our peers. As other banks have all issued the report, we would like to keep at the same level with them"*.

Some other participants made similar statements as follows:

*I think it [CSR reporting] is a trend. In a long-term view, releasing CSR reports ahead of the trend gives a company its competitive advantages. [Participant No. 2] / Our foreign counterparts and some domestic counterparts had issued this report, which was worth learning. [Participant No. 9] / The three largest dairy companies… all of us have released the report. [Participant No. 12] / Because nowadays in China, we have some companies that are chasing the trend. When they see the mandatory requirements on some listed companies, they promote themselves as well … These companies just go with the flow. [Participant No. 15] / Listed companies follow their overseas counterparts … Because large foreign oil companies usually release their CSR reports. [Participant No. 16] / Many of our peer companies are also issuing CSR reports. [Participant No. 20]*

In addition, five out of eight participants from non-reporting companies stated that companies referred to the practices of their peer companies. Two participants directly

said that they would issue CSR reports if the majority of their peers had done so. Their statements are reproduced below:

*It depends on the trend in society. If many companies have released their social responsibility reports, I am not saying 100%, if over 50% of the companies do so, we will also be willing to release our report, even if there's no mandatory regulation. Or if other companies in our industry do so, we will also do so. Although we will not be the first one to release the report, we will follow the majority if they do. [Participant No. 3] / We will also take consideration of our peers' practices. If most of them are issuing [the report], we will do it too. [Participant No. 14] / If it [CSR reporting] becomes a trend, we will consider it as well. [Participant No. 18] / Another possibility is that they are under pressure from their peers in the same industry [Participant No. 4] / I think from the perspective of companies, they look at each other, they may need an atmosphere where the majority are issuing the report, which will put pressure on those who are not. [Participant No. 7]*

Peer pressure as a main enabler of CSER in China was identified by over half of the participants in this study. Although since 2008 only a small portion of companies have been required to issue their CSR reports in China, since then far more companies have also issued their CSR reports. This is in accord with the explanation of peer pressure.

### 5.3.5 Public pressure on controversial companies

Public pressure, especially on companies with negative news, was regarded as another driver of CSER in China by some participants. Although the majority of the participants reached a consensus that public awareness of CSR and CSER in China was fairly low, some felt that it had improved in recent years. In addition, some participants asserted that the public paid much more attention to controversial companies with negative news. These companies were perceived to be under much greater pressure to prove they had fulfilled their responsibilities to society.

As Participant No. 20 stated, *"[t]here has been increasing media coverage of CSR and companies' misbehaviour, which helps to improve the public awareness of CSR".* Furthermore, Participant No. 7 pointed out that the development of social media technology played an important part in improving public awareness. He explained that nowadays anyone could simply take a photo of companies' misbehaviour and post it

with a description on a microblog on the internet. Shortly thereafter, the public would all know about it; therefore, companies could not hide negative news as easily as before. As the public is paying more attention to companies' misbehaviour, companies are under more pressure to prove they have fulfilled their responsibilities to society, especially the controversial companies with negative news.

As pointed out by four participants, some controversial companies with negative news issued CSR reports as a result of public pressure. Two examples of quotes are below:

*These companies that have released CSR reports may be the ones that have controversial issues in society ... Some companies, including foreign companies and private companies, when they are under pressure from negative news or the media to eliminate these concerns, they may release such a report, telling how much they've done for society. [Participant No. 5] / Some companies in polluting industries or companies with negative news are facing large public pressure. They need to justify that their business operation is legitimate which can be a motive to do CSR reporting. [Participant No. 18]*

In addition, it seems controversial companies were more willing to issue CSR reports, with CSER able to be used as a communication tool to reduce public concern. Participant No. 12, from a reporting company experiencing an industry crisis, stated that:

*Currently, there is much negative news of food safety in the dairy industry in China. I think it is necessary to strengthen our communication with the customers, the media and the other stakeholders to improve the confidence of the market towards our enterprise and the whole Chinese dairy industry ... You know, as there is too much negative news of the Chinese dairy industry, our whole industry is in a trust crisis.*

With public awareness of CSER perceived to be low in China, some participants pointed out that a driver of CSER for controversial companies was being under greater public pressure to legitimise their operations.

## 5.4 MANAGERIAL PERCEPTIONS OF BARRIERS TO CSER

Very little existing literature has explored the barriers to CSER; however, investigating these barriers is worthwhile as they hinder the adoption of CSER by companies. The

researcher interviewed eight senior managers from non-reporting companies with the remaining 13 senior managers from reporting companies also sharing their understanding of the barriers to companies' adoption of CSER in China. This study's findings revealed five main barriers, including two internal and three external barriers (see Figure 5.2) that held companies back from adopting CSER: details are provided in the next five subsections.
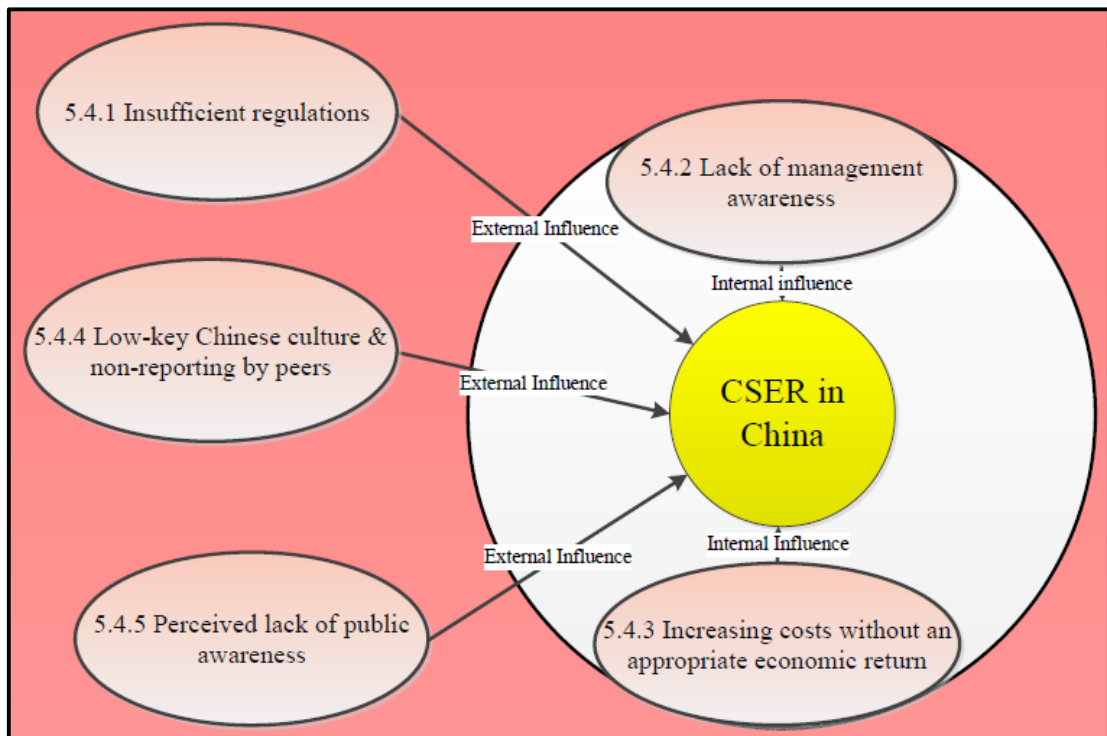


**Figure 5.2: Barriers to CSER in China**

### 5.4.1 Insufficient regulations

Although a small portion of companies have been subject to some reporting requirements since 2008, CSER is still on a voluntary basis for most companies in China. All the non-reporting companies in this study were not obligated under any reporting regulations. Five out of eight participants from these non-reporting companies emphasised that their companies were not required to release this report. Moreover, some mentioned they would definitely comply if they were subject to any reporting requirements. These participants from non-reporting companies were inclined to think they had no obligation to issue CSR reports if they were not subject

to any regulations. The following quotes are typical responses that represent the attitude of these participants:

*We are not obligated under any mandatory requirement by the government to release this report ... currently, we are inclined to take it as an issue of law and regulation. If there is a requirement by law or regulation, we will definitely do so. If it is by our own choice, then we may do it or may not ... In Europe, many companies release the report because of the regulations. Without the regulations, most of the companies would not do so. It is the same in China. [Participant No. 3] / Because we are not obligated under any reporting regulations currently, we do not take it [issuing CSR reports] as urgent. [Participant No. 4] / We are not required by any related regulations to do so. [Participant No. 14] / We are not obligated under any regulation to issue this report ... if the regulators think the report is necessary to us and require us to produce it, we would follow the regulation. But currently, I do not think it is imperative, as our company does not have a large impact on the environment and society. [Participant No. 18] / There are no regulations requiring us to issue the CSR reports. [Participant No. 21]*

Participants No. 5 and No. 7 from non-reporting companies asserted that most companies lacked motivation to go beyond compliance reporting. They made the following comments:

*Mandatory regulations are invisible pressure on the enterprises. The report can be seen as a commitment by enterprises to the public, to society, of what they do and what they should do. Without a mandatory requirement, enterprises in general do not have motives to issue the report. [Participant No. 7] / If there is no mandatory requirement, but just a suggestion, I don't think all companies will engage in this reporting. [Participant No. 5]*

In addition, three participants from reporting companies regarded the lack of regulations as a barrier to CSER in China. They commented:

*I think a regulated reporting system needs to be built. If there is no system, especially in the society of China, companies will think why should we release CSR reports while others do not? [Participant No 1] / One barrier is that there is a lack of regulation relating to small and medium-sized enterprises. [Participant No 6] / If it is voluntary,*

*many companies are unwilling to issue the report. But once there is a law or regulation requiring them to release the report, they will definitely do so. [Participant No 11]*

Furthermore, some participants pointed out that the lack of requirements within a standardised reporting framework was an obstacle impeding the development of CSER in China. The various guidelines offered by the regulators were perceived to be too loose with companies given a large degree of freedom to choose the information that they released. Therefore, companies' CSR reports might not reflect their real CSR practices. Two participants mentioned this problem in the following quotes:

*As for the report, it is not made by an independent third party, but by the company itself. You know, in companies and schools, when managers or teachers ask for a self-performance review, some people who are good at boasting about themselves could make a really good report, while the others who are not or do not attach importance to the report may only write a few words. So, we cannot judge a company's real social responsibility practices only by its reporting. Good reports are not always a guarantee of good practice. [Participant No. 3] / I think there will be less people willing to read it as it has little value. The Chinese language has many neutral words. Any Chinese report put on the table will not be sharp unless there is explicit instruction to be so ... That is to say, most of the words in the report are organised in a neutral way. If we replace one company's name with another one, the report would be identical. So, people will not pay a high level of attention to the report. [Participant No. 5]*

Four participants expressed their concerns that the lack of a standardised reporting framework might give companies opportunities to selectively disclose good news, as indicated in the following quotes:

*There is no mandatory index or framework which causes the failure of companies to produce standardised CSR reports and enables them to choose the good news beneficial to themselves to release ... The released CSR reports usually only cover good news and very little bad news is mentioned ... It does not impact on the companies whether the information they disclose is real, or how much information they disclose. [Participant No. 9] / I am not saying all of them, but the majority of the reports only mention good news. The reports are decorated with beautiful pictures and look like advertising flyers. The reports of different companies or the reports over the years have similar content. Furthermore, some companies release very good CSR reports,*

*but their CSR practices are not so good. [Participant No. 12] / Nowadays, the majority of the CSR reports, with the purpose of gaining publicity rather than the sincere commitment to CSR, only selectively disclose good news. [Participant No. 14] / What's the main point now? Lack of completeness. They [companies] only tell you what they want to say; for the things they do not want you to know, they will take it to the grave. [Participant No. 21]*

In a nutshell, a large barrier to CSER in China was revealed to be insufficient regulations. Companies that were not subject to reporting regulations did not feel obligated to go beyond compliance reporting. In addition, the lack of requirements within standardised reporting frameworks was regarded as impairing the credibility and value of CSR reports.

### 5.4.2 Lack of management awareness

As discussed in subsection 5.3.2, senior managers had substantial influence on their companies' CSER practices. While management awareness in some companies was found to be a major driving force of CSER, lack of management awareness in other companies was revealed as a large barrier to CSER. As suggested by the participants, in some companies, management did not attach importance to CSR and CSER which was a large disincentive to CSER within their companies. Three participants from reporting companies remarked on this problem as follows:

*Another common problem is, in many companies, the management with real power do not see CSR and morality as core values. Some top managers didn't seem to attach enough importance to them ... In other words, the management of some companies has fairly low awareness of CSR. [Participant No. 11] / This is because the top management has not paid enough attention to the reporting. [Participant No. 13] / Another problem is the awareness of these companies has not reached that high level. [Participant No. 16]*

Participant No. 17 directly said that he did not think companies were accountable to the general public and all stakeholders, adding that *"[t]he main purpose of a company is to create wealth for its shareholders, and to provide good products and services to its customers"*. Some other participants seemed to be more willing to take on these responsibilities in relation to economically powerful stakeholders but not to the general

public. For example, Participant No. 3 from a non-reporting company made the following comment:

*I think the first responsibility of a company is to its customers, the second is to its employees and the third is to its shareholders, then to the public last. These are all the parties a company serves. However, now there is a bad tendency that a company is regarded as meeting its social responsibility only when it does good things for other parties apart from its customers, employees or shareholders. I think this view is too narrow. The first responsibility of a company is to produce best-quality products which satisfy its customers. Next, it should consider the welfare of its employees. Most companies in China do very well in these aspects.*

In addition, it is worth noting that some senior managers might be aware of CSR but not of CSER. For example, Participant No. 19 from a non-reporting company actually showed a fairly high level of awareness of CSR and the company for which she worked had undertaken many CSR activities, but she was not aware of CSER as it was comparatively new in China. Many other participants also did not have a clear idea of CSER. As discussed in Section 5.2, some participants thought that real action matters, not reporting, and a few participants asserted that CSER was not necessary for companies that did not have a large impact on the environment or society. Half of the participants from non-reporting companies directly admitted that they had little knowledge of CSER:

*I haven't read this kind of report and I have never talked about it with my friends. [Participant No. 3] / Lack of awareness is a big obstacle. Most training for us as senior managers of listed companies is technical, such as stock trading. There are quite a lot of similar ones. As for CSR reports, if you were not doing this interview with me today, I would not be aware of it. [Participant No. 7] / I do not know much about CSR reporting. [Participant No. 18] / We know little about CSR reporting. We only realised that companies can produce CSR reports after we knew you. [Participant No. 19].*

In some companies, senior managers did not attach importance to CSER, which could be due to their lack of awareness of either CSR or CSER. Without the support of management with real decision-making power, companies tended to lack internal motivation to produce their CSR reports.

**5.4.3 Increasing costs without an appropriate economic return**

Increasing costs due to the adoption of CSER appeared to be a significant concern of companies, which was raised by a number of participants. The following quotes are typical examples:

*Higher ethical standards will increase costs of the companies, including management cost and operation cost. [Participant No. 7] / [The managements of some companies] are unwilling to input too much labour and money [on CSR reporting]. [Participant No. 11] / Cost is another concern. [Participant No. 13] / They [top management] are unwilling to invest too much in it [CSR reporting]. [Participant No. 16] / Some companies, especially private companies, may be unwilling to bear the cost [of CSR and CSER]. [Participant No. 20]*

Quite a few participants admitted that companies were profit-oriented when they made decisions, including decisions concerning CSER. If companies perceived that they would not receive an appropriate economic return from CSER, they would avoid the cost. Typical quotes are as follows:

*After all, all enterprises aim at making profit and if issuing the reports can bring benefits to companies, they will be willing to issue the reports. [Participant No. 7] / Especially for some private companies, their managers predominantly focus on the financial return of their investment. They will consider "if I invest money on CSR reporting, can I receive a satisfactory financial return from this investment?" If the answer is no, they may not be willing to engage in the reporting ... They do not think they can get an appropriate return if they invest in it [CSR reporting]. [Participant No. 11] / For those small companies, one consideration is the cost and another is profit. If small companies engage in CSR reporting, can they get any economic benefit from it? ... Consider the cost and CSR reporting can't bring companies direct economic return. Doing this reporting may indicate a potential, invisible and soft improvement of companies. But from the viewpoint of revenues, they have no direct economic return. [Participant No. 16] / I don't think we can get a reasonable return from the money and manpower we invest in it [CSR reporting] ... the cost is listed in the annual report, but we cannot see the financial return [from CSR reporting]. [Participant No. 17] / But in the short term, they [companies] cannot receive an appropriate financial return*

*from the investment [in CSR and CSR reporting] to cover the cost. [Participant No. 20]*

When talking about companies' CSR and CSER decisions, some participants stated that the priority of companies was profit, as indicated in the following quotes:

*The management usually has an idea of CSR. They won't say CSR is meaningless, but they have to decide what the priority is. In China, making profit is always listed first. [Participant No. 2] / Facing the choices relevant to economic interest, enterprises are often self-centred. [Participant No. 7] / Usually they [companies] care more about the financial return … Since the implementation of the reform and the Open Door Policy in China, companies in China have been paying a lot of attention to pursuing short-term economic benefits, and ignored fostering long-term inner spirit. [Participant No. 11] / Another concern is the influence on current profit. [Participant No. 15]*

Two participants from non-reporting companies asserted that the priority of companies was to make profit. They regarded the most important responsibility of a company to be providing good economic returns to investors and good products/services to customers, as indicated in their statements below:

*An enterprise is an economy that means to pursue profit. It aims to make profits, so it may intend to avoid some social responsibilities … The most important social responsibility of a company is to maintain a good operation. Especially for listed companies, it is a larger responsibility to bring investment returns to shareholders. If a company performs poorly, has poor economic returns, even if it participates in charity and donation events, it still fails to fulfil its real social responsibility. [Participant No. 7] / A company will not be successful if an entrepreneur has a strong sense of social responsibility, but does not have the ability to run a business. If the company cannot deliver good products or make profit, it is meaningless to read its report. If you cannot run your own business, it is unrealistic for you to do a good thing for others. [Participant No. 3]*

Taking into consideration cost and profitability, companies were reluctant to engage in CSER or to dedicate too many resources to it. For example, Participant No. 13 from a reporting company stated：

*Now we do not have enough personnel and money to do so. We only start making our report two or three months before the deadline every year. The employees who make the report also have many other duties at the same time ... They [top management] are unwilling to spend too much on it.*

In addition, Participant No. 2 from a world-renowned professional services company mentioned that companies in China were unwilling to input many resources to CSER which was a barrier to CSER development in China. She made the following comment when talking about the CSER practices of their clients:

*The lack of professionals and resources is another reason for the failure of CSR reporting in China. Here is an interesting situation. Many multinational corporations' headquarters [outside China] issue citizen reports, CSR reports or sustainability reports, while their branches or subsidiaries in China do not. All they do is translating the English version into Chinese or, at most, add a little information about their operation in China. Currently, they do not have the staff or ability for making CSR reports, which needs to be improved.*

While some companies were unwilling to spend a significant amount on CSER, others simply could not afford it. Some participants showed an understanding of this situation in which many companies in China, especially small and medium-sized companies, continued to struggle to survive, so their priorities had to lie with profitability. The reality was that, facing fierce competition, these companies must strictly control their costs; otherwise, they would very soon be out of business. Some statements from the participants are reproduced below:

*A poor man cannot afford his own living, but he would like to give money to others which is ridiculous. Whether you have the ability to help others is decided by your economic situation. If you are a problem to society, how can you help others? So you should do your own business well first, then do good things for others. [Participant No. 3] / After all, an enterprise must have economic profit to support its social responsibility. Some small and medium-sized enterprises may still have a lot of difficulties in maintaining their own business and development, or don't have enough energy to do it. [Participant No. 6] / It is mainly the private and small companies that have not released reports yet. They have not reached that stage as they are still*

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*suffering from the pressures of surviving. Social responsibilities will not be taken into consideration until the company reaches a certain stage when it is not facing the problem of surviving. If a company is still striving for its survival, it may not consider the social responsibility issues at all. [Participant No. 8] / In a highly competitive market, some companies have problems remaining a going concern, let alone taking care of these social and environmental issues. [Participant No. 17] / Some small companies may not be able to afford the cost. [Participant No. 20]*

Some participants also pointed out that CSER practice largely depended on the economic status of a nation and a company. As China was still a developing country, it was believed that some companies in China could not afford to pay as much attention to CSER as those in developed countries which were much stronger economically. In some cases, it was inevitable for these companies under intense economic pressure to focus on their own business in order to survive. Extracts of some of the quotes are stated below:

*We should adopt a gradual process according to our national conditions and focus on the priorities. If we took the highest standards directly from developed countries, our domestic companies would suffer a huge loss and so would our economy, so a gradual process is necessary. [Participant No. 4] / The People's Daily once issued an article stating that developing countries are focused on the sole aim of developing. We should be tolerant to such development … Some European and the US enterprises really pay attention to it [CSR] because they have developed beforehand. In order to survive, some small companies need to focus on profit-seeking … CSR will be widely accepted only when the economic development and moral levels have been elevated to a certain degree. [Participant No. 6] / Because China is different from other countries, especially some developed countries; it is at the developing stage. At this stage, most companies pay more attention to their economic outputs and their industrial development, and have not taken account of the damage they do on the Earth, social or human; they haven't thought about it. [Participant No. 19]*

Over half of the participants associated companies' CSER decisions with their concern for increasing cost, particularly when it was believed that CSER did not achieve an appropriate economic return. It was perceived that in the current business environment in China, most companies focused on economic profit as they were under the pressure

of achieving economic business outcomes, which will be elaborated in subsection 5.4.5. Some participants also pointed out that companies still struggling to survive in China might not be able to bear the cost of CSR and CSER.

### 5.4.4 Low-key Chinese culture and non-reporting by peers

The Chinese cultural trait of being 'low-key' emerged as another significant barrier to the disclosure of CSR information to the public by companies in China. A number of participants mentioned the low-key Chinese culture, as shown in the following quotes:

*We are relatively low-key and not doing enough in communication. [Participant No. 2] / Chinese people are low-key and they tell little but do much ... in a Chinese cultural background, we don't take the reporting for granted. [Participant No. 5] / Many companies keep low-key. [Participant No. 12] / Companies all choose to stay low-key. [Participant No. 14] / Other enterprises keep their heads down doing things in silence and are more low-key. [Participant No. 15]*

The majority of participants from the non-reporting companies stated that their companies actually had undertaken many social responsibilities but they just did not talk about it. This is in accord with participants' opinions that real actions matter rather than reporting, as mentioned in Section 5.2. For example, Participant No. 3, who was from a non-reporting company that had sponsored the family education system to encourage creative learning for 14 years and made large donations every year, made the following comment:

*We don't publicise what we have done, since we are low-key. If the reporting is useful to communication and supervision, then we shall advocate it. But, if some companies take the reporting as a way of popularising themselves in order to make more profit, we cannot say they undertake their social responsibilities, since their reporting is a form of advertising ... Some people say it but never do it, and others do it but never say it ... so we should look a little bit deeper.*

When the researcher questioned further about the nature of a low-key culture, the participants explained that they did not want to draw unwanted attention or create unnecessary risks. Participant No. 3 also quoted an old Chinese saying "a tall tree catches much wind" which means if a person is high profile and stands out from the

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crowd, he will attract more attacks as he generates more attention. This point of view was shared by a number of participants. Typical examples included:

*Chinese people are low-key, partly because the environment in China is sometimes not friendly. People will doubt their [companies'] purposes if they show off too much doing charities. [Participant No. 3] / Some enterprises actually have done a lot, but they do not want to talk about it because, in today's society, if an enterprise says too much, and it cannot keep its word, it will be attacked by society. Although its intention is good, it still runs a risk of being attacked. [Participant No. 7] / They think if they issue a report, they'll attract some unnecessary attention. If they don't issue the report, nobody knows and nobody outside will recall because you don't hear, you don't see, you don't ask. If you see a report, you will focus on that. [Participant No. 10] / Companies may be worried that the release of CSR reports will draw some unwanted attention and cause some trouble and risk. [Participant No. 11] / I think the main reason is because they want to avoid troubles. If a company releases negative news, it is highly probable it will be attacked by the media. So, many companies keep low-key. [Participant No. 12]*

Importantly, many participants pointed out that a reporting company would stand out and attract much attention if its peer companies were not reporting. Hence, influenced by the low-key Chinese culture, companies resisted taking the lead to issue CSR reports if it was not a trend in their industry. Some typical quotes are as follows:

*The Chinese are unwilling to stand out, so companies in China would not like to take the lead in releasing the report. [Participant No. 3] / The other main reason is about Chinese traditional culture. Chinese people are low-key and they do not want to be the first one to do anything. They do not want to be put under the spotlight because they release a report. [Participant No. 5] / In the background of Chinese culture, people are fairly low-key and indirect, and try to avoid taking the lead in doing anything. [Participant No. 11] / As far as I know, most of our peer companies have not issued this report. We do not want to take the lead, as there are uncertainty and risk. Our board will not be happy with these, so we'd rather stay low-key. [Participant No. 14] / We are not a high-profile company. We will not take the lead to issue such a report. [Participant No. 18]*

Ten participants talked about the influence of the low-key Chinese culture and/or avoiding take the lead in CSER in China. The rationale behind this low-key culture is to avoid unwanted attention and risks. When CSER was not a common practice among peer companies, companies were discouraged by their concerns about the risk of standing out. If CSER was a common practice, this concern would be much less, and companies were more likely to engage in CSER (see subsection 5.3.4).

### 5.4.5 Perceived lack of public awareness

The perceived lack of public awareness of CSR was uncovered as a primary barrier hindering the adoption of CSER in China. The majority of participants agreed that public awareness of CSR and CSER in China was quite low although some thought it had improved in recent years.

Five out of eight participants from non-reporting companies expressed their doubts about CSER's value. They perceived that very few people were interested in this information, so they did not think it was worthwhile to invest time and effort in CSER. They remarked:

*Even if companies released CSR reports, people might not pay much attention to it. [Participant No. 5] / Actually it's a problem about awareness; it's relevant to the social environment ... There's no individual or organisation, including securities exchange regulators, asking our company for social and environmental information. [Participant No. 7] / Because most Chinese people have low awareness of CSR, they will not actively pay attention to the reports ... The public awareness of social responsibility in China is fairly weak ... they are never concerned about this information. [Participant No. 14] / I do not think the general public in China would actively pay attention to CSR information. Their awareness has not reached this level. Without readers, why should companies produce this report? [Participant No. 18] / Maybe there are [readers], but only occasionally. [Participant No. 21]*

A number of participants from reporting companies also addressed the low public awareness of CSR. Typical comments included:

*The public in China pay little attention to them [companies' social and environmental impacts] because they do not feel it is relevant to them ... in China, the [CSR]*

*awareness of the general public is relatively low ... I think currently the positive atmosphere of paying attention to CSR has not been formed in the whole society. [Participant No. 6] / Currently, the general public do not know it well and care little about it, since social responsibility is a relatively new concept in China. [Participant No. 8] / Chinese society and the public have little awareness or pay little attention to CSR. [Participant No. 9] / Only when there is a certain accident, a certain event happens, they [the public] will talk about it, but you know, after months or even a few days, nobody will worry about it. [Participant No. 10] / Our awareness is still very low, compared with developed countries ... They [the public] may think this information is irrelevant to them and is only a way of advertising ... Currently, the pressure from society is not strong enough to push the companies to release their CSR reports. [Participant No. 11] / The report is relatively new in China. Many people, even some managers, have no idea about it. So, not many people pay attention to CSR information. [Participant No. 12] / If there is no impact on them, according to the present education and awareness of the Chinese people, they [the public] definitely will not care about it. [Participant No. 16] / I doubt the real value of this report as most Chinese people, with such a low awareness, never actively read it [Participant No. 17] / I think the general public may not be interested in this information. Many of them are not aware of CSR. [Participant No. 20]*

Moreover, Participant No. 13 told the researcher that his company put an email address on its CSR reports to receive feedback or enquiries from readers, but never received any emails, so he considered that the public did not pay much attention to the report.

Many participants remarked that companies are under little public pressure in terms of their social and environmental impacts, as they were mainly measured by their economic performance. Some typical quotes are as follows:

*When a listed company issues its statements, people and investors will not pay attention to the information about its social responsibility, but focus on economic data instead ... Since the reform and opening-up in the recent three decades, we have achieved high-speed development and the Chinese people have become very sensitive to economic numbers, such as GDP and economy growth rate. However, there are many other things that cannot be presented in these numbers, but they are also worth*

*our attention. [Participant No. 1] / Now, all the policies are GDP and [economic] performance-oriented ... the long-term public interests are not adequately protected. [Participant No. 6] / There is more pressure on the economic indicators. The number one issue investors care about is share price [Participant No. 7] / Compared with others, listed companies bear more pressure on profits. Additionally, most of the Chinese stock investors are short-term or mid-term operators. In other words, they [investors] care much about short-term economic interests and ignore the long-term strategic investment. So they pay little attention to long-term risks in both society and the environment ... the Chinese society has put too much emphasis on the pursuit of economic development and ignored the concept of a harmonious society. [Participant No. 14] / A company's success is mainly measured by its economic performance, the profit it makes. These social responsibility activities will not have any effect on our share price. [Participant No. 17] / The public and investors place more attention on the financial data of a company, while most of them are not aware of CSR. [Participant No. 20]*

Participant No. 7 provided the example of Zijin Mining Group Ltd, a leading Chinese gold, copper and non-ferrous metals producer and refiner. Zijin Mining was embroiled in a major pollution incident when acid waste escaped its copper plant into the Ting River. However, its share price only dropped for the first few days after the disclosure of the news and then bounced back very quickly, even when the company was still under investigation by the stock exchange regulator and the Environmental Protection Bureau. This was taken to mean that the shareholders did not care much about the negative social and environmental impact of the company's operation. Participant No. 7 said that, although the operation of the company impaired the interests of local residents, it benefited customers all over the world as well as its shareholders. The shareholders made different demands on the company to those made by local residents. The shareholders wanted the enterprise to mine as much gold as possible to bring them more economic return, because they did not suffer the pollution caused by gold mining that was experienced by local residents. Companies in general prioritised the interests of shareholders and investors.

In addition, the Chinese people were perceived to only care about the issues that had direct impact on their self-interest. For example, several participants discussed their

concern about food safety issues and negative news in food industries. Participant No. 12 from a dairy company commented:

*We are a food company and our products have direct influence on people's health, so the public pay high attention to our social responsibility information ... Because it is relative to everybody's own benefit, everybody is talking about it ... As for some other industries, if their social and environmental practices have little direct influence on people, people may not be interested in the information. You know, the Chinese people do not like to care about others' business.*

Moreover, many participants admitted that they seldom discussed environmental and social issues with others, and they believed that the public were the same. Some typical quotes include:

*There's an old Chinese saying, "everyone sweeps the snow from his own doorstep and doesn't bother about the frost on his neighbour's roof"... Everyone attaches significance to economic interests, especially personal interest. People only care about what is closely related to themselves. [Participant No. 1] / Those [who pay attention to CSR information] must be the ones who are affected [by the companies' practices]. [Participant No. 3] / The local people surrounding the companies' operation, especially in manufacturing, mining, and metallurgical industries, which may have an incidental impact on the surroundings ... will pay the closest and most direct attention to the companies. [Participant No. 4] / Chinese people have a tradition of clearing their own front walk ... will keep silence as long as the misbehaviour does not harm their own interests. [Participant No. 8] / The current situation in China is that the public does not care about CSR, except when the information is closely related to themselves, such as the construction of a nuclear power plant near their residence. [Participant No. 9] / For ordinary people, even if they learned that companies had done something harmful to society or the environment, as long as it didn't affect their personal interests, they would not take any actions or worry about it. [Participant No. 14]*

When discussing the public's narrow focus on economic interest and self-interest, some participants associated this situation with the development progress of Chinese

society. Participant No. 10 from one of the largest multinational insurance companies in the world explained this situation with excellent examples as follows:

*You know, this is a maturity cycle thing. People firstly focus on getting food, so they can feed themselves well. And then they also want shelter, they want housing. Once they have food and housing, they turn [their] attention to transport, clothing. These are all part of a maturing cycle, a path going towards maturity. And soon after [they] feed themselves, they get their housing, they have good transport, good clothing, then they look at doing good things. They will look at how the environment affects us, how social responsibility affects us. So, I feel this is a natural progression. This is a natural progression in a developing nation like China. China is [still] a developing nation, although we are very strong now, economically very strong … so it is just a natural progression. It takes time to move from feeding, sheltering, travelling, clothing and then to things like social responsibility and environmental issues … That's why I call it a natural progression. When they get richer, get all these necessities—what I call necessities are eating and housing—then they start to focus on things like the environment and social responsibility.*

Three participants from non-reporting companies also made similar comments:

*The low public awareness in China is largely related to the development stage of its society; although a small part of Chinese people are rich now, China is still a developing country, and its average personal income is much lower than that of developed countries. A large portion of Chinese people are still poor. These people probably only focus on their personal interests, their financial interests and they will not think much about the larger society and the environment. [Participant No. 18] / When people just start to move from adequate food and clothing to a better-off life, they will not think of what serious 'diseases' they might get as the consequence [of their behaviours]. [Participant No. 19] / It (CSER) is related to the economic situation, development and progress of society. [Participant No. 7]*

Almost all participants in this study agreed that there was little public pressure on companies' CSER practices in China due to low public awareness of and attention to this information. As for the reasons why the public were not interested in CSER in China, in addition to the narrow focus on economic interest and self-interest, several

participants mentioned that CSER was relatively new in China, and there was a lack of public awareness of legal rights and self-protection, and doubts about the credibility and usefulness of CSR reports.

## 5.5 SENIOR MANAGERS' SUGGESTIONS FOR ADVANCING CSER IN CHINA

The majority of the participants showed confidence in the future of CSER in China. Many also offered some suggestions on how to promote it. These suggestions are presented in the following four subsections.

### 5.5.1 Increasing reporting regulations

In response to the question on the best ways to advance CSER in China, many participants first thought of reporting regulations. A number of participants asserted that increasing reporting regulations would lead to more companies releasing their CSR reports. Some representative comments included:

*As a listed company, disclosure of annual, semi-annual and quarterly reports is a must; because there are regulations ... I think the best way is for the government or regulators to make some regulations and requirements for companies. [Participant No 1] / Some mandatory regulations will improve the CSR reporting practice objectively. [Participant No. 2] / Regulations by the government would be an effective enabler. As long as it is regulated by the government, there is no doubt that companies will perform it. [Participant No. 3] / From the perspective of regulators, without mandatory requirements, companies' self-initiatives are far from enough. This is a problem. From the perspective of companies themselves, unless the management and leaders of a company have a strong awareness of social responsibility, they are passive in environmental protection and social responsibility practice. So, there have to be some mandatory requirements to a certain level ... Otherwise, the subjective efforts of some companies with low self-initiatives will not be enough. [Participant No. 4] / In Chinese culture, if it is a mandatory requirement by the government, I would definitely do it. If there is no regulation, I have the freedom to choose whether to do it; I would probably choose not to do it. First, I think there should be mandatory requirements and policy on the reporting. [Participant No. 5] / We should strengthen the regulation and management. The release of CSR reports should be covered in a regulatory framework or legal system. [Participant No. 9] / Mandatory laws and regulations*

*would be more effective. [Participant No. 11] / First, the regulations and laws issued by the government and regulators would be the most direct and effective way. [Participant No. 12] / I think issuing mandatory regulations and laws is probably the best and most efficient way. [Participant No. 13] / Obviously, regulations and requirements would be the most efficient way to get companies to release the [CSR] reports. [Participant No. 18] / In the short term, there is no doubt that mandatory reporting regulations would be the most efficient way. [Participant No. 20]*

Participant No. 21 indicated the importance of regulations at the early stage of CSER development in China in his following statement:

*When regulators start to implement a new system, I think regulatory policies are needed to enforce it. Otherwise, no one walks the first step. If no one starts, it cannot continue. So, at the beginning, I think it is helpful to use the means of administrative commands.*

In addition to formal regulations, some participants suggested that the government could use its power to promote CSER and guarantee the interest of the people in China, as shown from the quotes below:

*The government is definitely the most powerful stakeholder that can put large pressure on companies. [Participant No. 3] / In China, it is still a partly planned economy. That's why the promotion [of CSR and CSER] is for the government to lead. [Participant No. 10] / I think the government can advocate and recommend it [CSR reporting]. [Participant No. 16] / As a result, the government should undertake more responsibilities in promoting and guaranteeing the long-term interest of the people. [Participant No. 6]*

As mentioned in Chapter 3, only a small proportion of companies in China are required to issue CSR reports. Some participants saw the necessity to enlarge the range of companies subject to reporting requirements, as shown in the following comments:

*There's no need to require all companies to issue their CSR reports, but it is necessary to expand the scale of the requirements. [Participant No. 1] / It would be better to have legislation on a national level to push the development of CSR reporting. [Participant No. 4]*

In particular, two participants pointed out that the regulators should expand the range of companies subject to regulations to cover companies in heavy polluting industries:

*For chemical companies and oil companies, the public may be more interested [in their CSR information], the same for mining companies and coal mining companies. So for certain industries, I believe it will be good for the government to encourage them to report, even compulsorily. [Participant No. 10] / I suggest related regulatory authorities start with the companies in manufacturing and heavy polluting industries in consideration of their huge negative impact on society and the environment, and force them to issue CSR reports according to a mandatory framework first. [Participant No. 14]*

In addition to extending the range of companies subject to regulation, some participants suggested that standardised reporting frameworks with mandatory indicators were needed to improve the quality of CSR reports in China. They stated:

*At least a structure should be provided to let companies know what content should be included and the best way is to use numbers to express the content, as numbers are more objective than text ... a mandatory framework with quantified indexes and factors is needed. [Participant No. 5] / There should be more specific requirements about the content. For example, make it clear what kind of information must be disclosed in the report ... I think it is not necessary to limit the structure. [The regulators] only should emphasise what information or indexes must be included [in CSR reports]. [Participant No. 8] / Also, mandatory indicators and frameworks would be helpful to improve the standardisation of CSR reports in China. The regulators should work on it. [Participant No. 13] / There should be a good framework with some quantitative indicators, so it will be easy for companies to operate, for the public to read. [Participant No. 21]*

### 5.5.2 Improving management awareness

Although increasing regulations was perceived as an effective way to lead more companies to engage in CSER, some participants considered that regulations alone were not enough to advance CSER in China. For example, Participant No. 9 asserted:

*We cannot only rely on regulation enforcement to promote the reporting. The difference between regulation restriction and self-discipline is that for regulation restriction, there must be external constraint ... If a company is doing the report because of regulation restriction, it is hard for it to deliver a really good report.*

Some participants perceived that CSR reports had little value if issued by companies due to external pressures rather than from their inner willingness. Participant No. 13 told the researcher about outsourcing services for CSR reports provided by some consulting firms. Some companies simply hired these firms to produce professional and glossy CSR reports. He knew that one of their peer companies hired a consulting firm to produce its CSR report and that the report had won an award in the previous year. He thought this kind of report was simply window dressing. This issue was also mentioned by another participant in the following statement:

*A company itself has to realise the importance of releasing CSR reports. Self-awareness is more powerful than regulations. To cope with the laws or regulations, some companies may outsource their CSR reports to external service providers. In reality, however, this violates the original intention of CSR reporting, which is to help a company make an overall judgement on whether the CSR activities in which it is involved are to benefit its long-term strategy or not. If a company just takes it as a task, it is a pity, because it just gives up a good chance of self-examination. [Participant No. 2]*

Many participants expressed the view that the fundamental way to advance CSER in China was to improve the awareness of companies' management which would not only improve the quantity but also the quality of CSR reports. It was perceived that if management was aware of the importance of CSER, their companies would take active actions rather than a perfunctory approach. Typical responses from the participants include:

*If the management's awareness of CSR is improved, changes in releasing CSR reports will happen more quickly. [Participant No. 2] / Once the awareness of management and executives is improved, their value will influence all the staff in a company ... What kind of entrepreneurs we cultivate is vital. If they have no awareness of social responsibility, they will not really accept it just because their companies need to*

*release a CSR report. [Participant No. 3] / To do it better, we need more attention from the top management of our enterprises. [Participant No. 6] / However, the idea and strategic thinking of sustainable development are very necessary to the managerial level of enterprises. Once the management has awareness of CSR issues, it will be very easy for the relative staff in the company to operate it. It is all about the awareness of senior managers. [Participant No. 7] / We should further improve the senior management's awareness of the importance of CSR reporting. Although many companies have issued their CSR reports, their purpose is just to meet the requirements of the related regulators, rather than fully understand the reason why they should release such reports or connect the reports with their daily management practice. [Participant No. 9] / It is essential to improve the CSR awareness of the management of companies and the public. Only when the companies realise the importance of assuming social responsibility will they take reporting seriously and disclose more useful and substantive information. [Participant No. 14]*

In terms of the ways to improve management awareness, the participants suggested education and training, such as incorporating CSR and CSER in MBA courses. They also mentioned that increasing publicity would help to improve the awareness of both management and the public. Some examples of quotes are as follows:

*Nowadays, it is common for the management to take some on-the-job training programs more or less, such as the EMBA [Executive MBA] or short-run courses. If the instructors of corporate governance could spend time talking about CSR, it would receive some positive results. [Participant No. 2] / Leaders are definitely most important in an organisation, so attention should be paid to their education ... Cultivation of values and personality should be included in our education. If our education only lays emphasis on skills, the companies managed by our future executives will not accept their social responsibility. [Participant No. 3] / I believe one-off or short-term training may not get obvious results, so there is a need to organise continuous training for senior managers. First, it is important to let them know what CSR reporting is; what benefits it will bring to companies; what kind of problems a company may encounter after issuing its CSR report and the corresponding solutions to these problems; how to issue the report; the concerns holding companies back; and their other questions about the reporting practice. In other words, I think*

*training or consulting is a way to remove the barriers to reporting. During the process of this training, the managers will start to accept the fact that CSR reporting is an important and inherent part of the management process. [Participant No. 7] / A long-term plan would be to enhance the awareness of public and managers to CSR through publicity and education. [Participant No. 12] / I think more successful cases of CSR reporting need to be propagated through different channels. [Participant No. 19]*

### 5.5.3 Improving public awareness

In addition to improving management awareness within companies, many participants discussed the importance of improving the public awareness of CSER in society in general. The participants were clear that because companies exist in society, they cannot be isolated from society but are closely and inseparably linked to it, as noted in the following:

*It is an issue about the whole social environment ... Only by changing the social environment can companies' awareness be essentially enhanced. [Participant No. 2] / This is a complex problem, involving education and the values of the whole of society ... All the problems we talked about will finally be traced back to the whole social environment. A company is in society, rather than on an isolated island. Its staff must come from society. [Participant No. 3] / The awareness of the responsibility of citizens and that of companies is interconnected, as companies are made up by citizens. [Participant No. 9]*

Therefore, the fundamental solution in advancing CSER was regarded as improving public awareness. Many participants mentioned that if the public became more aware of CSR and CSER, they would exert greater pressure on companies' practices. Some examples of quotes are reproduced as follows:

*Once everyone pays attention to our society and the environment, companies will change and engage in CSR reporting to adapt to their customers who have awareness on this. So, I think if only a few people care about the report, it will be hard to push the release of it and the corporations will just accomplish the task roughly with limited real actions. If companies don't devote themselves to the reporting, the reporting practice will not be effective. [Participant No. 1] / The most basic point is to improve people's awareness ... public pressure will cause companies to pay more attention to*

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*sharing and disclosing their social and environmental information. This is a long-term solution. [Participant No. 11] / Only by improving public awareness and attention to CSR information, can we make the enterprises really take note of their CSR practice and reporting. [Participant No. 12] / Enhancing publicity, improving public attention and CSR awareness are important ... Improving public awareness is the key to promoting CSR reporting in China ... the pressure from the public could be another driving force to impel companies to take on more social responsibilities and release reports with more reliable and useful information. [Participant No. 13] / I believe that with an increasing number of people showing great concern about it [companies' CSR practice], companies will feel the pressure and take the initiative to release the report. [Participant No. 14] / The fundamental issue is to improve the public awareness of it [CSR reporting]. After all, it is about the demand and supply. [Participant No. 18] / In a medium to long term, it is essential to improve the awareness of the public and companies. [Participant No. 20]*

Participant No. 9 from a large listed bank emphasised the importance of public awareness in the following statement:

*Only in the situation that the public cares about such information and oversees the companies together with the government and the media, can we really promote CSER. Otherwise, even if it's done, it is likely to be nothing more than window dressing.*

The participants pointed out that it would be a difficult job and would need long-term efforts to improve public awareness. The ways to improve public awareness mentioned most by the participants were school education from childhood and media publicity. Some examples of quotes are as follows:

*There's an old Chinese saying that we should cultivate consciousness from birth, so we need to cultivate the social and environmental awareness of our children and students. [Participant No. 1] / The whole environment should be gradually changed and cultivated. [Participant No. 8] / We should put more effort into publicising the awareness of our citizens' responsibility. [Participant No. 9] / Of course, this is very difficult and it's nearly impossible to see the improvement in the short term ... We should enhance the publicity and education of our people and cultivate their awareness about CSR from their childhood and improve our education system*

*gradually ... Also, the media should increase its publicity on CSR, creating a social atmosphere that takes CSR seriously. [Participant No. 11] / Media propaganda and school education would help improve the public awareness of CSR. [Participant No. 14] / The media can work with some professional rating agencies to evaluate companies' CSR reporting practices and disseminate some good practice cases. [Participant No. 20]*

### 5.5.4 Strengthening supervision

Some participants pointed out the importance of imposing external pressure on companies by supervision as companies' internal motives may not be strong enough to drive them to issue their CSR reports or to properly produce CSR reports. The following are examples of quotes:

*External supervision and the media should play important roles in promoting CSR reporting. [Participant No. 4] / The promotion of CSR reports needs not only the companies' self-discipline, but also the constraints and supervision from society, the media, the government and the regulators as well. [Participant No. 9] / Supervision is also very important. There should be some punishments on companies that do not follow the rules. [Participant No. 20]*

Some participants mentioned that the government, regulators and competent authorities should take the main responsibilities in supervising and enforcing CSER in China, as indicated in the following statements:

*It would be more effective if the China Securities Regulatory Commission [CSRC] works together with other competent supervisory departments to promote CSR reporting. A general guideline is not enough ... The China Securities Regulatory Commission is only responsible for the disclosure of the listed company. Competent supervisory departments should adopt the main role in promoting the development of CSR reporting ... industry supervisory organisations, environmental protection agencies and securities regulators of listed companies should be responsible ... [Participant No. 4] / To motivate more companies in society, the government should come up with some policies to make a distinction between the companies who do it [CSR reporting] well and the companies who do not. [Participant No. 6] / Sometimes it is not the social responsibility problem of enterprises, but the management problem*

*of competent authorities. The government should enhance the enforcement of regulations and laws. [Participant No. 7]*

In addition, as Participant No. 12 stated, *"if the government and regulators are the only supervisors, the cost would be too high and it's difficult to cover all the enterprises".* Many participants thought it would be helpful if the media, rating agencies and stakeholders participated in supervising companies' CSR practice and reporting, as suggested in the following sample quotes:

*The media and the public can play the role of supervisors. But if the supervision is not systematic enough, then they cannot get a result among so many corporations. The best way is a combination between the media and rating agencies, namely, cooperation between professional rating agencies and rating agencies with high credibility headed by the media. They can do an annual summary about the companies that did a good job in social responsibility practice and reporting in the past year. [Participant No. 1] / It will be best if all stakeholders gather together to advance companies' CSR reporting. Some investors have begun to care about this aspect of the companies. For example, in foreign countries, some funds make investment decisions according to the social responsibilities a company takes. This can also produce some pressure on the companies. From a customer's perspective, some prefer the products produced by companies who take more social responsibility. It is difficult as the customers' source of information is limited. It depends on the media and the social environment. [Participant No. 8]*

Strengthening supervision was perceived as a way to improve both the quantity and quality of CSER in China.

## 5.6 SUMMARY

This chapter has presented the findings in response to the main research questions. From the data collected through 21 interviews with senior managers, five main enablers of and five main barriers to CSER reporting in China were identified. It is worth noting that the barriers were often the opposite of the enablers, which pointed out that the main drivers influencing CSER in China were regulations, management awareness, benefits of reporting, peers' practice and public pressure. In addition, the

main suggestions contributed by the participants to advance CSER in China were summarised. These enablers, barriers and suggestions are as presented in Table 5.1. The findings are discussed in detail in the following chapter.

**Table 5.1: Enablers of, barriers to and suggestions on CSER in China**

| Enablers | Barriers | Suggestions | |
|---|---|---|---|
| 5.3.1 Regulations on certain categories of companies and government influence | 5.4.1 Insufficient regulations on other companies | 5.5.1 Increasing reporting regulations<br><br>• extending the range of companies subject to requirements<br><br>• providing standardised reporting frameworks | • Improving the quantity of CSR reports<br><br>• Improving the quality of CSR reports |
| 5.3.2 Management awareness in some companies | 5.4.2 Lack of management awareness in other companies | 5.5.2 Improving management awareness (i.e. senior managers' awareness of CSR and CSER) | Improving the quantity and quality of CSR reports |
| 5.3.3 Benefits to company image | 5.4.3 Increasing costs without an appropriate economic return | | |
| 5.3.4 Peer pressure/reporting by peers in some industries | 5.4.4 Low-key Chinese culture and non-reporting by peers in other industries | | |
| 5.3.5 Public pressure on controversial companies | 5.4.5 Perceived lack of public awareness in general | 5.5.3 Improving public awareness | Improving the quantity and quality of CSR reports |
| | | 5.5.4 Strengthening supervision | Improving the quantity of CSR reports |

# CHAPTER 6: DISCUSSION[2]

## 6.1 INTRODUCTION

This chapter aims to provide a deeper understanding of the findings obtained from the interviews as elaborated in the preceding chapter. This is achieved by linking the findings to the existing literature, to the current status of corporate social and environmental reporting (CSER) in China and to the theoretical knowledge.

The introductory section is followed by Sections 6.2 and 6.3 which discuss the enablers of CSER (RQ.1) and the barriers to CSER in China (RQ.2) respectively, the two main themes of this study. Another theme that emerged, regarding 'economic performance versus social and environmental impacts', is discussed in Section 6.4. Section 6.5 then summarises the CSER phenomenon in China, followed by Section 6.6 which focuses on a theoretical interpretation of the findings. This section discusses the applicability of institutional theory, stakeholder theory and legitimacy theory to an understanding of the findings of this study. Suggestions on how to advance CSER practice in China are provided in Section 6.7 (RQ.3), with the conclusion of the chapter presented in Section 6.8.

## 6.2 ENABLERS OF CSER IN CHINA

The findings from this study provide an understanding of enablers of CSER adoption in China through the lenses of senior managers. As perceived by the participants, CSER in China was driven by both an internal motive and external forces. The internal motive driving CSER was predominantly management awareness, while the external forces were regulations and government influence, peer pressure/reporting by peers, corporate image and public pressure on controversial companies. These five main enablers of CSER in China that emerged from the interview data are supported by the extensive existing literature and resonate with three social systems-based theories, namely, institutional theory, stakeholder theory and legitimacy theory. The main enablers that developed from this study are discussed in the following five subsections.

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[2] Part of this chapter has been presented at:
Yu, Shengli, Anna Rowe, and Mohammed Quaddus. 2015. "Managerial Perceptions of Corporate Social and Environmental Reporting in China." Presented at *The British Accounting and Finance Association (BAFA) Conference*, Manchester, UK.

**6.2.1 Enabler 1: Regulations and government influence**

The foremost driving force of CSER that emerged from this study appeared to be regulatory requirements and government advocacy of companies taking responsibilities to the public and the society for their operations, which was attested to by the majority of participants in the interviews. As mentioned in Chapter 3, the strong influence of regulations and the Chinese government was also demonstrated by the dramatic historical increase in CSR reports in China since the implementation of disclosure requirements by the two stock exchange regulators and the SASAC in 2008. The regulations, as external pressures exerted on companies, left them no option but to issue CSR reports.

Similarly, the government's advocacy was also perceived as a primary driving force. CSR has been largely advocated by the Chinese government as an important part of its current top national agenda of building a harmonious socialist society (Dai, Ng and Tang 2013). One way for companies to show that they have fulfilled their CSR is through CSER. Many participants attested to the powerful government influence on companies, especially on SOEs.

The influence of the government and regulators as drivers of CSER has been mentioned in prior studies in different countries (e.g. Wilmshurst and Frost 2000; Harvey and Schaefer 2001; Kolk 2003; Kuasirikun 2005). The Chinese government is extremely powerful because it controls "a significant portion of scarce resources, such as land, bank loans, subsidies, and tax breaks" (Sheng, Zhou and Li 2011, 3). It is not only a policy maker at the macro level, but also has direct power at organisational level due to its significant ownership of many companies in China and its control over many senior managers of state-owned enterprises (SOEs). In 2012, the state-controlled listed companies accounted for over half of the total market value of A-share listed companies in China (Yang, Craig and Farley 2015). In addition, many senior managers of SOEs are appointed by the government and formerly worked as government officers (Yang 2002).

In Dong, Burritt and Qian's (2014) study on the CSR disclosure of all mining and minerals companies listed in China, the disclosure level was found to be positively associated with the Chinese central government's shareholding in the companies, which led to the conclusion that the Chinese government was a salient stakeholder in

the CSR reporting of those companies. Furthermore, in Meng, Zeng and Tam's (2013) study on the environmental disclosure of listed companies in China, SOEs were found to have a higher disclosure level in order to meet the government's expectation. Another study by Marquis and Qian (2014) on the CSR disclosure of listed companies in China revealed that companies with CEOs who were members of national political councils were more likely to issue CSR reports; similarly, firms with leaders who were government officials and firms with headquarters in more institutionally developed regions were more likely to be engaged in more substantive CSR reporting. These findings confirmed that government encouragement of CSR was an important political factor in China.

In addition, Xun (2013) found that the government had a strong influence over foreign companies. By examining the CSR web announcement data and firm performance data of 17 global retail companies in China, Xun (2013) concluded that foreign retailers actively transformed their CSR practices to conform to the government CSR agenda.

In addition to the above studies and a number of other quantitative studies (e.g. Kuo, Yeh and Yu 2012; Liu and Anbumozhi 2009; Weber 2014; Zeng et al. 2010), the following two qualitative studies observed the power of the Chinese government in relation to its effect on companies' CSR practice and reporting. Through interviewing senior managers of companies in China, Rowe and Guthrie (2010) identified "coercive government institutional involvement" as the major driver of corporate environmental initiatives and reporting for companies in China. Similarly, Yin and Zhang (2012) interviewed senior managers in textiles and pharmaceutical industries, and discovered that an important motive for companies in China to engage in CSR practice was in order to cooperate with the Chinese government with its advocacy for CSR.

The strong power of regulations and government also relates to Chinese culture. China is identified as a "large-power-distance" country (Hofstede, Hofstede and Minkov 2010, 61) which means, to a large extent, that "the less powerful members of institutions and organizations within [the] country expect and accept that power is distributed unequally". This cultural trait justifies the high degree of centralisation of authority in the Chinese government and the unchallenged position of the Communist Party of China (CPC) (Yang, Craig and Farley 2015). It also indicates that China's accounting and disclosure practice is characterised as supporting statutory control

(Chow, Chau and Gray 1995), and supports the fact that companies started to engage in CSER once they were under mandatory requirement beginning from 2008. In addition, the role of regulations and government influence can be interpreted with the coercive mechanism of institutional theory and the managerial branch of stakeholder theory which will be discussed in detail in Section 6.6.

### 6.2.2 Enabler 2: Management awareness

As a prominent internal motive, management awareness of their companies' ethical duties to stakeholders and the important role CSER plays was found to be another principal enabler in this study. Many participants acknowledged that they have a moral obligation to the public and stakeholders. Some expressed their gratefulness to the relevant stakeholders, as their companies' success and accomplishments depend on the support of their stakeholders and the resources of society. They felt that their companies have a reciprocal obligation to society, and considered social responsibilities as a return to their stakeholders, and that it is an ethical duty.

Some participants from reporting companies were also aware that CSER was a good tool to communicate companies' CSR practices to their stakeholders, and to hold their companies to account for their conduct with respect to stakeholders. This intrinsic moral awareness impelled senior managers to have their companies undertake social obligations and responsibilities to their stakeholders, and to fulfil their accountability obligations by disclosing their CSR practices. This moral obligation towards stakeholders, as mentioned by these participants, echoes the normative branch of stakeholder theory which will be discussed in Section 6.6.

The attitude of senior managers towards CSER is critical, as they are directly involved in the decision making of their companies. Their influence on CSER and CSR practices has also been observed in several previous studies. For example, Campbell's (2000) case study of a British retailer revealed the personal influence of top management on corporate social disclosure by linking the variability in social disclosure volume in annual corporate reports with the terms of four chairmen in the company. In Yin and Zhang's (2012) study of companies in China, ethical leadership and managerial discretion were identified as primary drivers of companies' CSR practices.

Furthermore, Fifka's (2013) review of CSER empirical literature stated that managerial attitudes were found to be an important internal determination of companies' CSER in many studies (e.g. Campbell 2000; Rahamana 2000; O'Dwyer 2002; Collison, Lorraine and Power 2003; Cormier, Gordon and Magnan 2004; Belal and Owen 2007). Fifka (2013) commented that, in particular, managerial attitudes were a highly important influence factor of CSER in Asia "where the key guidelines for business behaviour are made at managerial discretion" (Crane and Matten 2010, cited in Fifka 2013, 26).

### 6.2.3 Enabler 3: Benefits to company image

Although management awareness in some companies could be a driver of their CSER, some participants admitted that, when it came to decision making, companies always weighed up the benefits and the costs. They expected returns from their investment in CSR and CSER, such as benefits to company image which was identified by the participants as a strong incentive for CSER. This enabler resonates well with the literature in its identification of company image as a primary driver of CSR or CSER implementation (e.g. Adams 2002; McMurtrie 2005; Lindorff and Peck 2010; Solomon and Lewis 2002; Belal 2008).

Corporate image is crucial in determining the success of organisations (Worcester 2009). It is widely accepted that good corporate image and reputation are intangible assets, which can provide a competitive advantage for a company (Hall 1993; Fombrun 1996; Suh and Amine 2007). A good corporate reputation and corporate communication with stakeholders can be strategic advantages to a company (Balmer 2009). They give customers confidence in the companies' products, attract investors and potential employees, and enable the company to negotiate favourable contract terms with suppliers and creditors (Suh and Amine 2007; Dowling 2006).

As CSR has become an increasingly important factor in corporate reputation (Worcester 2009), companies can benefit from enhancing their corporate image though their CSR initiatives (Arendt and Brettel 2010) which gives them competitive advantages. According to Elkington (1997, 171), "a large part of companies engaging in corporate social reporting view their reports as public relations vehicles, designed to offer reassurance and to help with 'feel-good' image building". Therefore, CSER can be seen as a tool to gain competitive advantage by cultivating a good company

image and reputation in terms of social responsibility (Hooghiemstra 2000). Corporate reputation was found to be a fundamental driver of CSR implementation in a focus group study by Vilanova, Lozano and Arenas (2009) with 35 senior officers from the European financial sector.

In addition, many scholars (e.g. Deegan and Gordon 1996; Hackston and Milne 1996; Deegan and Rankin 1996; Harte and Owen 1991; Cho, Roberts and Patten 2010) found that companies used CSER as a tool to improve their company image by selectively disclosing much positive social and/or environmental information and little or no negative information. In this study, some participants told the researcher that their companies never disclosed negative information in their CSR reports. As explained by Participant No. 20, "*[t]he bad news would impair our company image, so we do not want to shoot ourselves in the foot by disclosing it ourselves*". According to the China WTO Tribune (2013), 82.9% of all the CSR reports issued in China in the first 10 months in 2013 only included good news, thus strongly indicating that improving company image was a motive behind CSER in China.

### 6.2.4 Enabler 4: Peer pressure/reporting by peers

Peer pressure was revealed as another primary driving force of CSER in China. It partly explains why, since 2008, some companies not obligated under regulatory requirements also started to voluntarily issue their CSR reports. Peer pressure can be associated with the prevalence of herd behaviour in Chinese culture. One of the features of Chinese culture is collectivism (Hofstede, Hofstede and Minkov 2010, 92) which "pertains to societies in which people from birth onward are integrated into strong, cohesive in-groups". Although nowadays, owing to globalisation, the younger generation in China may be influenced by the Western individualist culture, as Hofstede (2001, 34) remarked, "[c]ultures, especially national cultures, are extremely stable over time". This Chinese cultural trait backs up peer pressure as an important factor in companies' CSER decision.

Furthermore, peer pressure can be interpreted with the mimetic mechanism of institutional theory, which states that companies are apt to follow the trend in their organisational field by imitating their peer companies' practices when facing uncertainty (DiMaggio and Powell 1983). As CSER is still at a preliminary stage in China, quite a few participants admitted that they did not know it well. When talking

about their companies' CSER, many participants mentioned more about the CSER practices of their counterparts or the trend in their industry.

Some industries in China have their own CSER rules. For instance, according to some participants from large banks, the China Banking Regulatory Commission (CBRC) requires them to release CSR reports before 30 June every year. In addition, some industry associations also encouraged CSR for companies in their industry. For example, the China Banking Association issued *Guidelines on the Corporate Social Responsibility of Banking Institutions of China* on 12 October 2009. As mentioned in Chapter 3, according to a research report on all CSR reports issued in China in 2012, companies in the finance sector produced the most reports. This could be partially caused by the SSE reporting regulation with regard to financial companies and the industry guidelines, and partially by imitation mechanisms. According to institutional theory, as CSER becomes a norm (i.e. normative isomorphism) in the industry, companies are pressured to keep up with their peers due, in part, to the institutional mimetic mechanism. As a result, in some industries such as the banking industry and the dairy industry in China, the majority of large companies have issued CSR reports as they considered it to be a common practice in their industries.

Some prior studies also adopted the mimetic mechanism to explain their findings. Amran and Siti-Nabiha (2009) interviewed 10 senior managers from the listed companies that were identified as good CSR reporters in Malaysia, and confirmed that the Malaysian companies' main motivation for CSR reporting was to emulate their counterparts in Western countries. Aerts and Cormier (2009) conducted a longitudinal study on environmental reporting by the largest companies in Canada, France and Germany, and found intra-industry imitation in companies' reporting practice. They pointed out that institutional mimetic isomorphism could make companies take corporate environmental reporting for granted, which explained why companies still produced CSR reports in situations in which there were no threats to their legitimacy or demands from stakeholders. A recent study by de Villiers and Alexander (2014) also found a remarkable similarity in the CSR reporting structure of mining companies in Australia and South America, with the latter companies appearing to use global templates such as the GRI to shape their CSR reporting, adding details by referring to national regulations and rules and to specific local stakeholders. The findings were interpreted by mimetic, normative and coercive isomorphism. In China, Shen and Su

(2012) examined the environmental disclosure of 481 listed companies in heavy polluting industries based on their annual reports from 2006–2010. Their findings showed a convergence of the disclosure level among companies because companies imitated the average disclosure level of their peers.

In addition, as observed in this subsection, normative institutional mechanisms appear to have provided some plausible explanation for peer pressure as an enabler. Notwithstanding the early stage of CSER in China, some companies might already regard CSER as a norm in their industry. As discussed in Chapter 3, the percentage of CSR reports in China that followed reporting guidelines rose from 68% in 2012 to 72% in 2013. Larrinaga-González (2007) suggested that some companies tended to think that they had to prepare their reports based on GRI guidelines simply because it was deemed to be the norm in society and in their organisational field. In fact, the effects of normative isomorphism and mimetic isomorphism cannot be clearly separated (DiMaggio and Powell 1983).

### 6.2.5 Enabler 5: Public pressure on controversial companies

Compared to the other enablers found in this study, public pressure appeared to be a relatively weak driver of CSER in China. Except for the Chinese government and regulators, most participants did not emphasise experiencing pressure on their companies from other general public stakeholder groups, while they agreed that public awareness of CSER in general was still fairly low in China. However, some participants pointed out that when it came to companies attracting controversial issues or negative media news, the public would pay much greater attention. These companies under major public pressure might use CSER as a communication tool to justify their legitimacy.

Companies in the dairy industry in China provide an example. China's dairy industry has seen multiple scandals in recent years caused through a crisis in the safety of dairy products in the whole industry. Sanlu, a giant Chinese dairy company, 43% owned by Fonterra, a New Zealand dairy company, was the first company exposed in the milk powder scandal. In 2008, the infant milk formula produced by Sanlu was discovered to have been contaminated with a non-alimentary chemical, melamine, which can cause kidney stones. This incident caused the death of six babies with an estimated 300,000 babies taken ill owing to kidney damage *(The Guardian* 2008). In addition to

Sanlu, another 21 Chinese dairy companies were found to have added high levels of the toxic industrial chemical, melamine, to their milk powder (*The China Post* 2008; BBC 2008). After these incidents, all companies in the Chinese dairy industry faced a significant crisis as their legitimacy was threatened. Consequently, companies in the dairy industry were under enormous pressure to maintain their 'licence to practice'.

Participant No. 12, from a large dairy company in China, said that he felt the whole dairy industry was in trust crisis as there was too much negative news about dairy product safety. When experiencing great public pressure, he asserted that "*it is necessary to strengthen our communication with the customers, the media and the other stakeholders to improve the confidence of the market towards our enterprise and the whole Chinese dairy industry*". He also mentioned that all three of the largest dairy companies in China had issued CSR reports. The researcher reviewed the 2008 CSR reports of these three companies, and found that two of them elaborated on the melamine incidents in which they were involved. All of them asserted that they had responsibilities towards society and had strengthened their product safety.

According to legitimacy theory, there is a "social contract" between the organisation and the society in which it resides (Lehman 1983; Guthrie and Parker 1989). If the organisation breaches its social contract, which means it fails to meet society's expectations of operating in an acceptable way, society will withdraw its support, and the organisation will not be able to maintain its operation. Hence, legitimacy is critical for the survival of a company. CSER can be seen as a tool used by companies facing negative news to rebuild their legitimacy after incidents such as the melamine incident in the dairy industry. Informing the public of the changes and efforts they had made is a crucial strategy to reduce the legitimacy gap identified by Lindblom (1994). This strategy is undertaken to assure the public of product safety, and to show their awareness of their responsibility towards the community.

A number of quantitative studies have invoked legitimacy theory to explain their finding that maintaining legitimacy under public pressure in the social and environmental context was a major motive for the adoption of CSER by companies (e.g. Patten 1992, 2002; Walden and Schwartz 1997; Adams, Hill and Roberts 1998; Buhr 1998; Hutchings and Taylor 2000; Deegan, Rankin and Tobin 2002; Magness 2006; Branco and Rodrigues 2008; Tilling and Tilt 2010; Islam and Deegan 2010).

Some studies in China (published in Chinese) also found that companies facing negative environmental news disclosed more environmental information to maintain legitimacy when under greater public pressure. For instance, Xiao and Zhang (2008) examined the environmental disclosure of 79 listed companies in the chemical industry in China before and after the Songhua River pollution accident caused by a chemical company, Jilin Chemical. Their results showed that companies in the sample made significantly more environmental disclosures in their annual reports than they did two years prior to the accident, with their attempt at damage control while experiencing public pressure explained as legitimising their operations. Sun and Zhang (2009) and Yin (2009) also conducted two similar studies on environmental disclosures of listed companies in heavy polluting industries by comparing their disclosure levels before and after the Songhua River pollution event and the Bei River cadmium pollution event. The results of these two studies showed that the companies disclosed much more environmental information under public pressure after the incidents.

In addition, the findings of some other quantitative studies in China (e.g. Li 2007; Ma and Zhao 2007; Wang 2008; Liu and Anbumozhi 2009; Li 2009; Liu 2010; Zhang 2011; Kuo, Yeh and Yu 2012; Lu and Abeysekera 2014) suggest that companies in industries which are environmentally sensitive, or with high consumer visibility or that are sensitive to social responsibility disclosed more social and environmental information as they were under higher public pressure to maintain their legitimacy.

## 6.3 BARRIERS TO CSER IN CHINA

Some of the barriers to CSER adoption, as perceived by the participants in this study are the opposite of the enablers. As mentioned in Chapter 5, while regulations on certain categories of companies, management awareness in some companies, peers' reporting practice in some industries, and public awareness on controversial companies tended to enable greater CSER adoption, the lack of these drivers in other companies were identified as barriers to CSER adoption.

Findings relating to barriers to CSER adoption in China appear to resonate to some degree with the existing literature. However, whilst there have been many studies investigating the drivers of CSER with theoretical justifications, there is no definitive theoretical framework offering insights into possible impediments to CSER, particularly in an emerging nation like China.

Nonetheless, there are some noteworthy studies that have attempted to identify the barriers to CSER (i.e. Gray and Bebbington 2001; Buhr 2002; Solomon and Lewis 2002; Rowe and Guthrie 2009; Belal and Cooper 2011; Stubbs, Higgins and Milne 2013). The compelling reasons for non-reporting presented in these studies are not particularly dissimilar to the ones provided by the participants in this field research in China.

### 6.3.1 Lack of internal motives

Management's low level of awareness of CSR and CSER, as well as increasing costs without an appropriate economic return were found to be the two major internal disincentives to CSER in this study.

### a) Lack of management awareness

Management's low awareness of CSER was due to two main reasons. Firstly, CSER is still at an early stage in China (Gao 2011). Half of the participants from the non-reporting companies directly admitted they knew little about CSER. Some participants told the researcher that they had never thought of CSER before the researcher invited them for the interview, but their companies actually had engaged in many CSR activities. In addition, there was a lack of understanding of the value of CSER: some participants asserted that "actions matter more than words". Similarly, Belal and Cooper (2011) found that due to the fact that CSR reporting was comparatively new in developing countries, corporate managers in Bangladesh lacked awareness/knowledge of CSR which was identified as a main barrier to CSR reporting in their study.

Secondly, some senior managers appeared not to be aware of their companies' social obligations towards their stakeholders. Although most participants appeared to express a positive attitude towards CSER, the majority did not see it as imperative for all companies in China. Many participants regarded CSER as only necessary for companies in heavy polluting or sensitive industries. When discussing the necessity of CSER, Participant No. 10 from a reporting company remarked, *"I think it is a good idea. But [if] you ask me whether it [CSR reporting] is absolutely necessary, I probably don't see it as absolutely necessary. I think it [CSR reporting] is something good for them [companies] to have"*. This view resonates well with evidence found in

a recent study by Stubbs, Higgins and Milne (2013). Based on interviews with managers from 23 large ASX-listed companies that did not issue sustainability reports, Stubbs, Higgins and Milne (2013) found that sustainability reporting was regarded as a "nice-to-do, not a must-do".

Management's lack of awareness of their accountability to stakeholders largely discouraged CSER in their companies. Management attitudes determine how companies manage their CSER agenda. Without their support, it is hard to get the resources to do the reporting or to do it well. As commented by Participant No. 13, "*the top management has not paid enough attention to the reporting. They [top management] are unwilling to spend too much on it [CSR reporting]"*. Lack of appreciation for the value of CSER tends to lead to lack of management support (Bernhut 2002).

**b) Increasing costs without an appropriate economic return**

One of the reasons that companies resisted CSER was attributable to their perception of increasing costs without an appropriate economic return. As commented by Participant No. 7, *"[f]acing the choices relevant to economic interest, enterprises are often self-centred"*. Although costs are associated with CSER, such as personnel, time, energy and money, there is no perceived direct and appropriate economic return. Many participants mentioned that companies give priority to economic performance over social and environmental impacts.

In addition, quite a few participants showed their understanding of the situation in China in which many companies, especially small and medium-sized companies, continue to struggle to survive, so they could not afford to invest their limited resources in CSER without an appropriate economic return.

Previous studies also found that the cost of issuing CSER reports without perceived tangible benefits was a large disincentive for companies. For instance, Belal and Cooper's (2011) study on listed companies in Bangladesh revealed that the "profit imperative" was a barrier to CSR reporting. In Buhr's (2002) case studies on two large Canadian pulp and paper companies, the cost of the environmental reports was revealed as a big concern of one of the companies. In Martin and Hadley's (2008) questionnaire-based study of 151 companies amongst the UK's top 350 companies,

senior management's doubts over the advantages of reporting and the cost of data collection were found to be two primary drawbacks to environmental reporting. Rowe and Guthrie (2009) also found that alleged "costs outweigh benefits" was a barrier to corporate environmental reporting in China. Similarly, increasing cost was listed as a barrier to environmental reporting by Gray and Bebbington (2001).

In a nutshell, companies' lack of internal motivations to engage proactively in CSER is attributable to the low awareness of management and concerns about increasing costs without an appropriate economic return. Economic performance versus social and environmental impacts, as an important emerging theme of CSER in China, will be elaborated in Section 6.4. Most companies that are not subject to reporting regulations in China have not issued CSR reports, which is partially due to the fact that companies in China in general lack internal motives to embrace CSER voluntarily.

### 6.3.2 Lack of external pressure

For companies without internal reporting motivations, their CSER practices largely depend on the external pressure exerted on them. Insufficient reporting regulations across all industry sectors and the lack of public awareness were revealed as two barriers which led to low external pressure on companies to adopt CSER in China. The underpinning low-key Chinese cultural norm also needs to be considered.

### a) Insufficient regulations

While a few reporting requirements for certain categories of companies were regarded as the primary force that had driven the rapid increase of CSR reports in China, the absence of regulations on other companies emerged as a main reason why they did not engage in CSER. Participants from over half of the non-reporting companies asserted that they were not subject to any regulations or requirements to issue CSR reports.

"Lack of requirement" was listed as a barrier to environmental reporting by Gray and Bebbington (2001). It was also observed as a major barrier to CSER in other empirical studies. For example, the findings of Solomon and Lewis's (2002) questionnaire survey-based study suggested that one of the important disincentives to CSER for companies in the UK was that "there is no legal obligation for companies to report". "Lack of legal requirement" was also identified as a barrier to CSR reporting in

Bangladesh by Belal and Cooper (2011) and a barrier to environmental reporting in China by Rowe and Guthrie (2009). Moreover, Stubbs, Higgins and Milne's (2013) study on Australian listed companies found that non-reporting companies tended to think it was unnecessary to go beyond compliance reporting if there were no reporting requirements.

In addition, some participants pointed out that the existing requirements of CSR reporting were too lenient. They considered that, without requirements for standardised reporting frameworks or indicators, companies might selectively disclose information in their favour thus impairing the credibility and value of CSR reports. This opinion is supported by the findings of many empirical studies which indicate that companies disclosed much positive news and little or no negative news in their CSER practice, as was mentioned in subsection 6.2.3 'Enabler 3: Benefits to company image'. In addition, without a mandatory reporting framework, companies could get away with minimum disclosure. For example, Yageer, a listed company subject to a mandatory reporting requirement, only issued a three-page CSR report in 2009.

**b) Perceived lack of public awareness**

For those companies not subject to reporting requirements, the external pressure experienced predominantly depends on public awareness. The majority of the participants reached a consensus that public awareness of CSR in China was fairly low. The lack of public awareness of CSR caused a lack of demand for such information which discouraged companies from engaging in CSER.

As mentioned by Gao (2011), the social environment that would force companies to engage in CSER in China has not yet been built. Most participants did not feel their companies were under much pressure from stakeholders, with the exception of the government and regulators, to release social and environmental information. For example, Participant No. 17 remarked, "*[f]rankly speaking, I don't think our investors, clients, employees or the public will genuinely care about such information ... What shareholders and investors care about is profit but not these things*". In this study, only Participant No. 12 from a company in an industrial trust crisis said he felt great public pressure, and saw it necessary to communicate CSR information to the public.

Pressures on a company's standing associated with CSR performance were only perceived to be of concern for controversial companies with negative news as the public focused much greater attention on these companies. For companies in general, there was a perceived lack of public pressure for social and environmental disclosure. Hence, lack of stakeholder pressure was identified as one of the main barriers to CSER (Gray and Bebbington 2001; Stubbs, Higgins and Milne 2013).

Lack of external pressure from major stakeholders for the adoption of CSR and CSER has also been revealed in some prior studies in China. Tsoi (2010) interviewed 21 major stakeholders from different organisations in China to investigate stakeholders' perceptions of CSR. She found that low external pressure from the public and stakeholders caused the companies in China to lag behind their Western counterparts in CSR. Dong, Burritt and Qian (2014) investigated the influence of key stakeholder groups on CSR reporting in the mining industry in China and found that, with the exception of the Chinese government and international consumers' CSER, other major stakeholders such as industry associations, local communities and employees had no influence on CSER. In addition, Liu and Anbumozhi's (2009) study on the environmental disclosures of Chinese listed companies reported that creditors and shareholders had little influence on the companies' environmental disclosures. Rowe and Guthrie (2009) found that a "perceived lack of stakeholder demand" was a barrier to companies engaging in environmental reporting in China. In examining CSR philosophy and the approach of Chinese companies, Yin and Zhang (2012) also discovered the absence of both a conducive social normative environment and positive peer pressure in China.

Lack of awareness of CSER was partly due to the fact that CSER was comparatively new in China, and to the absence of CSER education. Excessive focus on economic performance also caused ignorance of companies' social and environmental impacts.

External pressure could push companies to passively engage in CSER in the absence of any internal motives. However, the external pressure on companies to produce CSR reports appeared to be fairly low in China, except for those companies compelled by reporting regulations or beset by negative news. Hence, until some form of coercive institutional pressure from relevant stakeholders and the need for heightened

legitimacy prevail, it will be a challenging journey before CSER becomes an institutional norm among enterprises in China.

**c) Low-key Chinese culture and non-reporting by peers**

The Chinese cultural trait of a low-key approach was revealed as another barrier to CSER in China in this study. Influenced by Confucius, the Chinese people tend to deflect attention from themselves in order to preserve harmony (Chen 2001). Taoism, another Chinese traditional philosophy, also advocates a low-profile leadership style (Johnson 2000). Being 'low-key' is regarded as a salient feature of Chinese management (Chen 2001).

Some participants from non-reporting companies told the researcher that their companies actually had undertaken many social responsibilities such as making donations, sponsoring education in poor areas of China and caring about their employees and customers, but they did not think about broadcasting these things. To them, actions matter, not words. For example, Participant No. 5 remarked, *"Chinese people are low-key and they tell little but do much ... in a Chinese cultural background, we don't take the reporting for granted"*.

The rationale behind this low-key culture was that companies did not want to attract unnecessary attention as a result of issuing CSR reports. As the social and environmental information of a company is sensitive, if the company makes disclosures, especially of negative news, it runs a risk of being attacked by the media and the public (Adams 2002). "Reluctance to report sensitive information" was identified as one of the most important disincentives to corporate environmental reporting by companies in the UK according to questionnaire surveys by Solomon and Lewis (2002). Furthermore, secrecy as a barrier to corporate environmental reporting was not only listed in Gray and Bebbington's (2001) *Accounting for the Environment*, but also revealed in Rowe and Guthrie's (2009) engagement-based study in China.

Importantly, as CSER was not a common practice in most industries in China, a company producing CSER would stand out if the majority of its peer companies were not reporting. There are some Chinese idioms in Chinese culture about adopting a low profile. For example, "[t]he shot hits the bird that pokes its head out" and "a tall tree catches much wind" both imply that people or companies that maintain a high profile

and stand out from the group will be targets for attack. As Participant No. 11 commented, *"[i]n the background of Chinese culture, people are fairly low-key and indirect, and try to avoid taking the lead in doing anything"*. This is in line with Oliver's (1991) proposition that, if the level of voluntary diffusion of norms or practices in an institutional environment is low, organisations are more likely to resist these norms or practices.

Furthermore, avoiding standing out resonates with the Chinese collectivist culture and the mimetic mechanism in institutional theory, thus explaining why some companies followed the majority of peer companies in their industry in engaging in CSER, as reported in subsection 6.2.4. Conversely, these theoretical assumptions are also plausible in explaining why some companies did not issue CSR reports. When the common practice was 'not reporting', the mimetic mechanism and collectivist culture could also lead companies to follow this tendency imitating their peers by not engaging in CSR reporting.

Many participants from non-reporting companies mentioned that their peer companies did not produce CSR reports. For example, Participant No. 18 remarked, *"as far as I know, CSR reporting is not common in our industry"*. Companies are inclined to avoid their social responsibility when other companies in their industry do not undertake that responsibility (Bernhut 2002). Invariably, for most companies in China, the lack of external pressure that led to a lack of internal pressure to issue CSER has highlighted the participants' dilemma between the critical pursuit of economic performance and the relevance of social and environmental ideals.

## 6.4 Economic performance vs. social and environmental impacts

Economic performance versus social and environmental impacts emerged as an important theme of CSER in China. Over half of the participants indicated that the public and companies paid much more attention to economic profit than to CSR. Companies in China appeared to be under great pressure in terms of their economic performance, while their social and environmental impacts were not challenged. Also, many participants emphasised the tendency in China of the excessive pursuit of economic benefit.

China has achieved remarkable economic growth since the Chinese economic reform that began in 1978 led by Deng Xiaoping. To shake off poverty, "making economic development the central task" was formulated as a national strategy by the government in 1987. In the past three decades, with the development of the economy, the material standard of living of Chinese people has been massively improved. Meanwhile, since Deng Xiaoping declared that "to get rich is glorious" in the 1980s, Chinese people are paying more and more attention to economic interests.

One article published by a well-known Chinese newspaper examined money worship in current Chinese society (*China Daily* 2010), providing the example of a popular TV blind date reality show "If You Are the One" in China. Many contestants showed a blind devotion to money. One female contestant even made the statement, "I would rather cry in a BMW than smile on the back of my boyfriend's bicycle". The article highlighted the young Chinese generation who had grown up during an era in which the economic reform resulted in the pursuit of material success and a view of wealth as the only standard of success. It also raised concerns about the negligence of moral guidance that had been caused by the narrow pursuit of economic achievement in China. The melamine milk scandal mentioned in subsection 6.2.5 provides more evidence. According to the government investigation, adding melamine to the ingredients was "a large-scale intentional activity to deceive consumers for simple, basic, short-term profits" (*China Daily* 2013). Many other food safety cases in China also found deliberate cases of companies securing profit at the cost of safety. An article in *Global Times* (2014) claimed that "Chinese society has become highly market-oriented, and money is given the highest value. Wealth beats other factors as a criterion of success". The 'money worship' social attitude tends to cause the public to focus more on economic interests than on CSR. With a company's performance basically measured by its profit, management which is under great pressure in relation to the economic aspects of their business are thus prone to focusing on those aspects.

Most environmental and social impacts of companies are seen as externalities. Companies do not bear the social costs; therefore, in mainly considering economic interest, companies tend to avoid spending to reduce the impacts of these negative externalities on the public. One example is reducing the production of pollution. If a company invests in upgrading their manufacturing and operating equipment to reduce pollution, the public will benefit, but the company will bear the initial cost. As

Participant No. 7 said, "*[a]n enterprise is an economy that means to pursue profit. It aims to make profits, so it may intend to avoid some social responsibilities*". As mentioned in subsection 6.3.1, CSER was perceived to be costly and to have a negative influence on companies' profitability, thus causing its avoidance by companies.

The narrow focus on economic interests in China was partially attributed to economic pressure on the Chinese people and Chinese companies. Although China has achieved remarkable economic development since the economic reform that began in 1978, it is still a developing country. According to the World Bank's (2014e) databank, China's GDP per capita was only US$6,093 in 2012, which was 9% of Australia's GDP per capita (US$67,525) in the same year. On the World Value Survey Cultural Map by Inglehart and Welzel (2010) (see Figure 6.1), China is in the segment of global society with low survival values, which suggests that the Chinese people tend to emphasise economic and physical security.
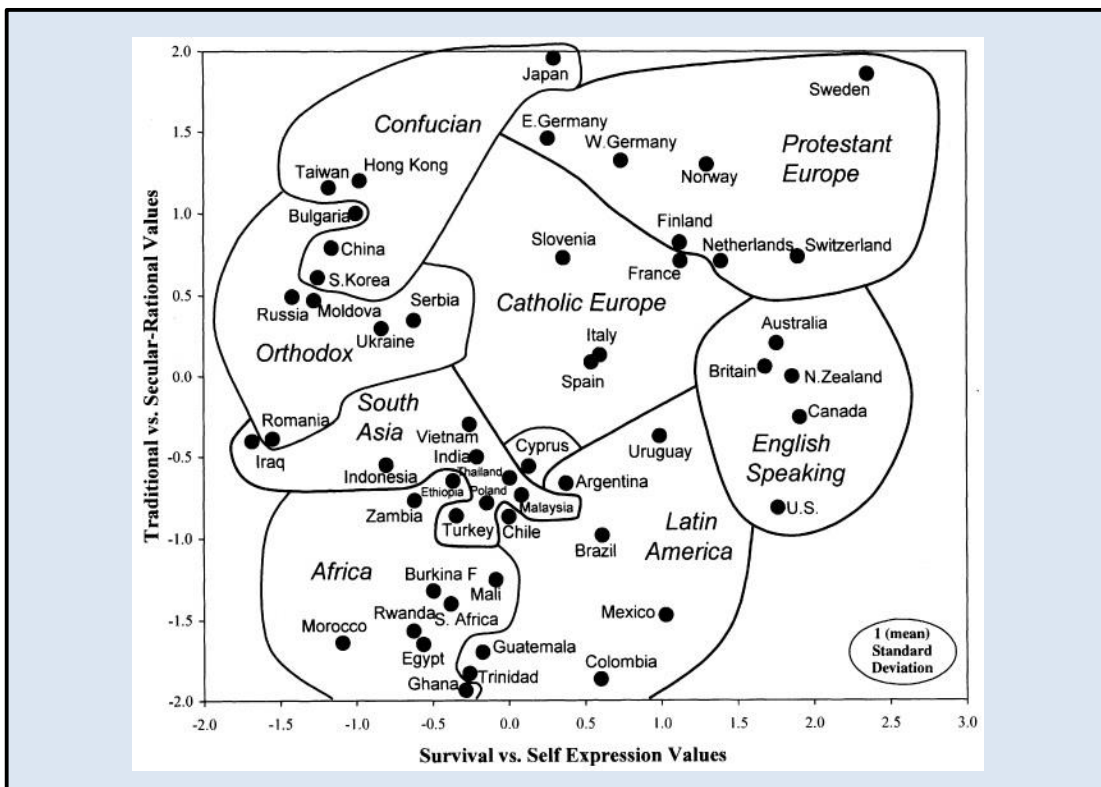


**Figure 6.1: World Value Survey Cultural Map 2005–2008**

Source: Inglehart and Welzel (2010, 554)

According to Maslow's (1943, 1970) hierarchy of needs, people will consider morality issues only when their basic physiological needs are satisfied. As there is a large wealth gap in China, although some Chinese people have become rich after the economic reform, the majority are still under great economic pressure to maintain their basic needs. Therefore, compared with people in developed countries who have much higher economic incomes, the Chinese people tend to focus much more on economic interest due to the lack of economic and physical security.

Participant No. 10, from a large international insurance company, talked about the natural progression in a developing nation such as China, indicating that people firstly focus on necessities, such as food, housing, transportation and clothing. When they become richer and have all these necessities, they will then start to care about things like the environment and social responsibility.

The same applies to companies in China, with many participants admitting that management priorities lie with economic profit. Participant No. 3 asserted that if a company fails to make a profit or struggles to survive, it will be a burden to society, let alone be in the position to adopt CSR or do good things for society. This point of view is supported by Carroll's (1991) Corporate Social Responsibility Pyramid (see Figure 6.2). As basic economic units in society, companies' principal role is to provide goods and services to customers and to stay profitable; fulfilment of their economic responsibility is the foundation of all other corporate responsibilities (Carroll 1991). Although economic performance is not the only responsibility of a company, according to Drucker (1984, 2011), the first responsibility of a company is to make enough profit to cover future costs, which is the basis for discharging other responsibilities. As stated by Werther and Chandler (2010, 12), "unless a firm is economically viable, even the best of intentions will not enable stakeholders to achieve their goals and maximize social value". For many small and middle-sized companies in China, their priority is to be economically viable. At the current stage, they do not have enough resources to invest in CSER, which is seen as seeming to go beyond their current competence. As Participant No. 7 said, CSER is "*related to the economic situation, development and progress of society*". In Thailand, another developing country, Setthasakko (2010) also found that the narrow focus of companies on

economic performance was one of the three root causes that impeded environmental reporting.

In summary, Ullmann (1985, 553) proposed two reasons why a company's economic performance is important to its CSR performance:

> First, economic performance determines the relative weight of a social demand and the attention it receives from top decision makers. In periods of low profitability and in situations of high debt, economic demands will have priority over social demands. Second, economic performance influences the financial capability to undertake costly programs related to social demands.

There appears to be a body of knowledge revealing that companies with higher profitability tend to disclose more social and environmental information. In Bangladesh, Khan's (2010) study of social and environmental disclosures in annual reports of 30 private commercial banks found a positive correlation between corporate profitability and their CSER disclosure level. In Malaysia, the findings of Haniffa and Cooke's (2005) study suggested a positive correlation between listed companies' profitability and their social and environmental disclosure level in annual reports. In a study by Tagesson et al. (2009), profitability was found to be a positive factor on CSR disclosure levels on the websites of Swedish listed corporations. In Germany, Gamerschlag, Möller and Verbeeten (2011) also found that large listed companies with higher profitability disclosed more environmental information.
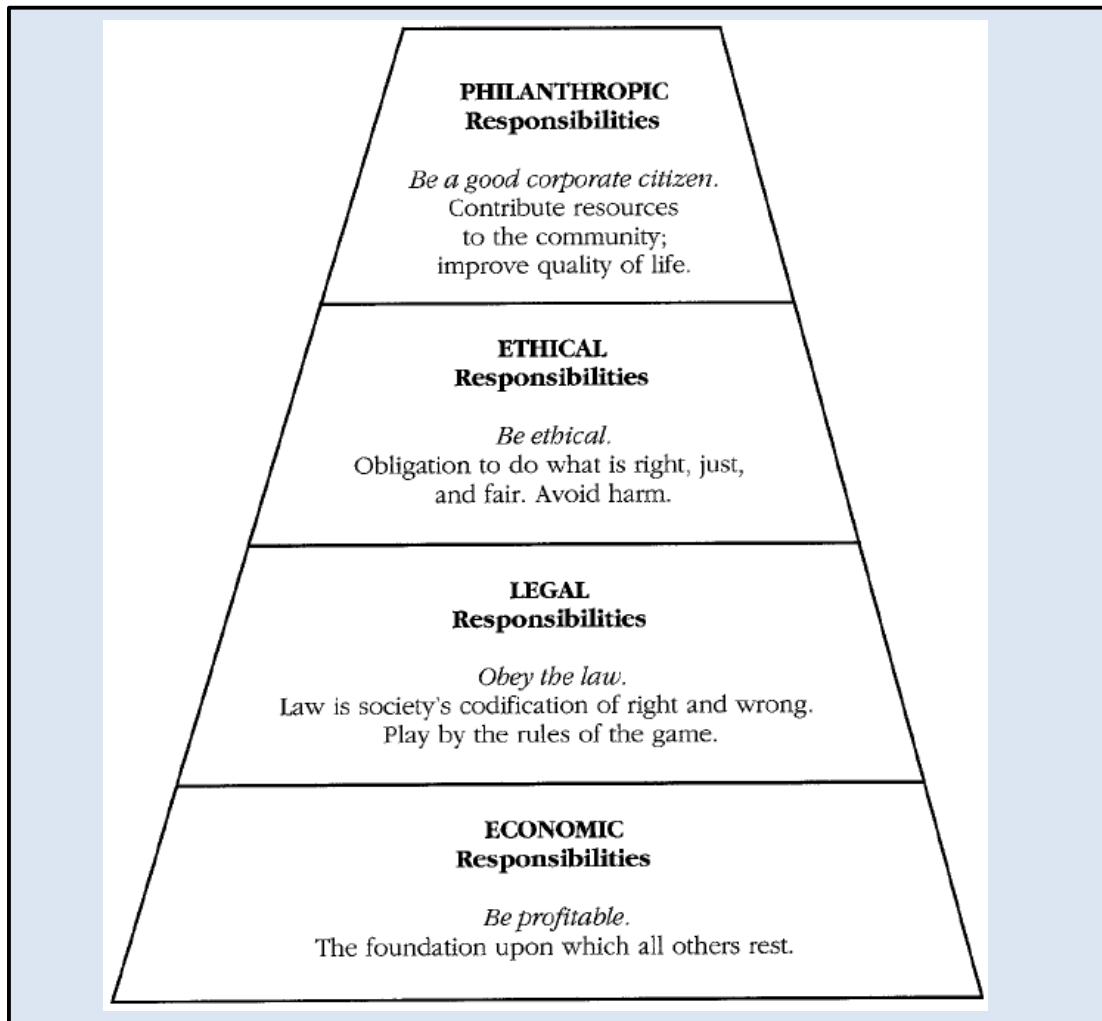
**Figure 6.2: The Pyramid of Corporate Social Responsibility**

Source: Carroll (1991, 42)

As mentioned in Chapter 2 'Literature Review', although the findings of some studies suggested a negative relationship or no relationship between companies' financial performance and their social and environmental disclosure, it seems the majority of the studies in China found financial performance to be a positive factor of companies' social and environmental disclosure and their CSR practices. A recent study in China by Lu and Abeysekera (2014) investigated the social and environmental disclosure of 100 firms on the 2008 Chinese Stock-listed Firms' Social Responsibility Ranking List, and found the disclosure level was positively associated with the profitability of the firms. Another recent study in China by Marquis and Qian (2014) based on 1,600 CSR reports issued by listed companies over three years also found companies with more

financial resources were more likely to be involved in CSR reporting. Several other studies in Chinese (e.g. Ma and Zhao 2007; Lin 2007; Zhang et al. 2008; Shen 2007; Li, Jia and Meng 2009; Liu 2012; Li 2010; Yuan 2004) also had consistent results.

In addition, in a survey-based study by Zu and Song (2009) in China, managerial valuing of CSR was found to be positively related to firms' financial performance. Qiu and Xu (2006) pointed out that the cost of reporting was an important barrier to companies' CSR disclosure in China. Apparently, companies with good financial performance were more likely to have the resources needed to undertake social responsibilities (Chen and Wang 2011).

The prioritisation by companies of economic performance over social and environmental impacts was a large impediment to CSER in China. On one hand, as China is still a developing country, it is unavoidable that people and companies still struggling to survive cannot afford to consider CSER. On the other hand, the atmosphere in society of the excessive pursuit of economic benefit in China has discouraged investment in CSR and CSER by companies. Some companies with enough resources were still unwilling to produce CSER because they perceived that CSER would have a negative impact on their economic performance. The narrow focus of companies on economic profit caused a lack of internal motivation to produce CSER, while the public's excessive pursuit of economic benefit resulted in a lack of external pressure on companies to disclose their social and environmental impacts.

## 6.5 CSER PHENOMENON IN CHINA

Drawing on the study's findings to gain a deep understanding of the CSER phenomenon in China, it is essential to analyse the circumstances at multiple levels, including broad political, economic, social and cultural considerations at the macro level, and internal influences on companies' decision making at the micro level. Figure 6.3 summarises the influential dynamics of CSER in China as revealed in this study.
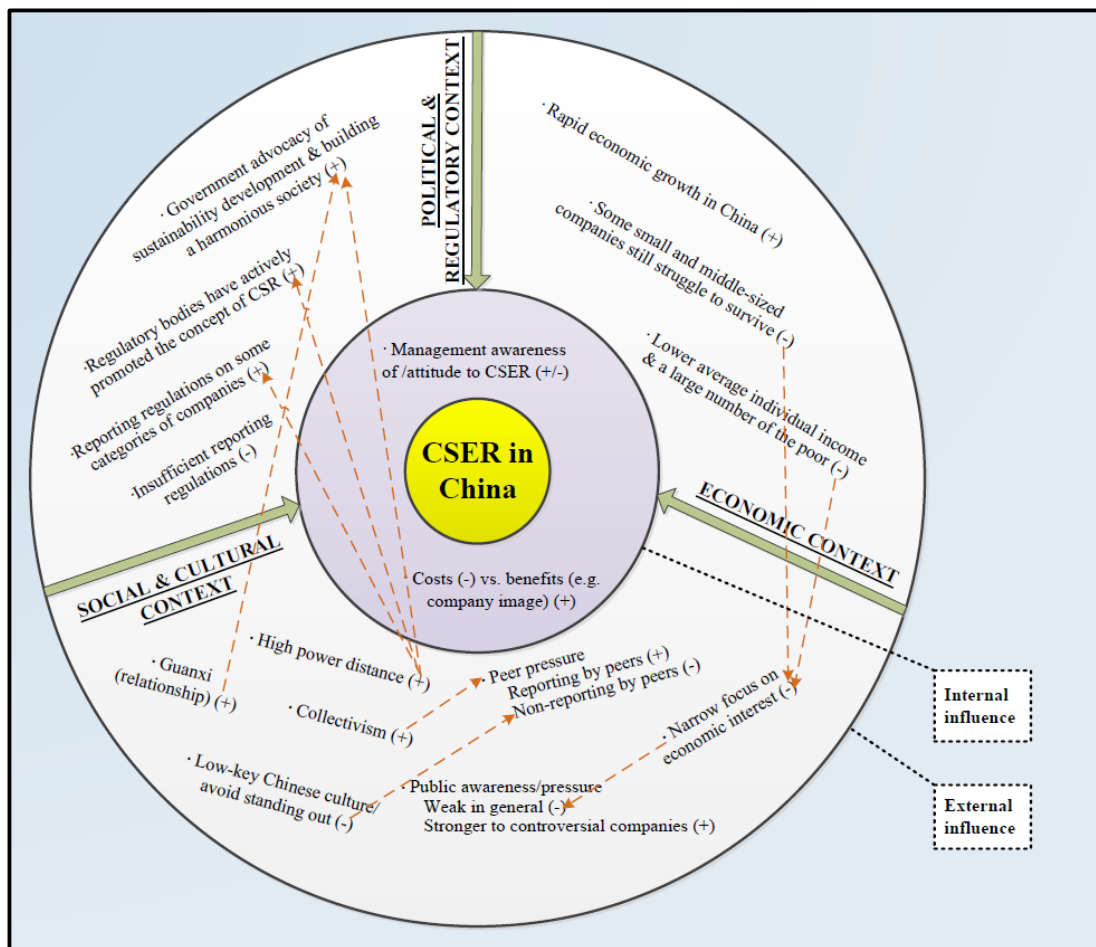
**Figure 6.3 CSER in China**

Notes: (+): positive influence on CSER adoption; (-): negative influence on CSER adoption; arrows show direction of influence

Firstly, in a political and regulatory context, government influence and reporting requirements are important influences on companies' CSER practice. The national policy in China is in favour of the development of CSER. As mentioned in Chapter 3, the Chinese government has put sustainability development and social harmony at the top of its current work agenda. In response to the government, regulatory bodies have promoted CSR and CSER, thereby, exerting institutional coercive isomorphism. The CSR reporting requirements for certain categories of companies have been a major driving force . However, at the current stage, the lack of regulations on other companies was a major barrier to CSER.

Secondly, CSER is highly relevant to the economic status of China. China's rapid economic growth in the past three decades has lifted hundreds of millions of people

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out of poverty, and offered enormous opportunities for companies to achieve higher profits. However, China is still a developing country with a large number of poor citizens, and many small and medium-sized companies are still struggling to stay in business. For their survival, these companies with poor economic performance are inclined to give priority to economic interests over their social and environmental impacts (see Figure 6.2). Consequently, the public expectation of CSR in China is low, partly due to the low individual income. Differences in CSR expectation exist between rich and poor societies due to different priorities (Carroll 1991; Werther and Chandler 2010).

Thirdly, some social and cultural aspects also impact on CSER in China. Peer companies' practice and public awareness are two strong factors. Influenced by a collectivist culture of institutional norms, companies in China, whether they are reporting or non-reporting, tend to keep to the same practice as their peers due to mimetic isomorphism. Moreover, in a low-key culture, companies do not want to stand out, so they are reluctant to engage in CSER when it is not a common practice in their industry. As for public awareness, it was perceived by the participants that the public in China do not pay attention to companies' social and environmental impacts, with the exception of those companies with controversial issues and negative news. This is, to a large extent, due to the public's narrow focus on economic interest. China had been seeking rapid economic growth at the cost of the deteriorating environment and widening social inequality (World Bank 2007). Although the public awareness of social and environmental issues has improved in recent years, the social atmosphere will not change overnight. In addition, the "high-power-distance" cultural trait indicates that Chinese companies are inclined to accept compliance reporting and government regulatory control. "Guanxi (关系 relationship)" plays a vital part in the Chinese business culture. It drives companies to engage in CSER to please the Chinese government which has been emphasising environmental and social issues.

These political, economic and socio-cultural dynamics determine the external pressure on companies' CSER, while the internal factor, management attitude to CSER, has a direct influence on companies' CSER decisions. Management with a higher awareness of CSR and accountability to stakeholders is more likely to promote CSER in their company. On the other hand, lack of management support can be a large disincentive to CSER. Although senior managers' moral awareness is an important subjective

factor, they still objectively weigh costs and benefits to companies when making decisions. The mindset of CSER versus that of economic performance prevents these companies from seeking opportunities for a win-win situation of increasing value to both business and society. Some companies have realised the benefits of CSER in relation to company image. A driving force for CSER revealed in this study is a reputation for social responsibility which can be a long-term competitive advantage for companies. In internal decision-making processes, it is important that companies consider whether they view CSER as an economic burden or as a strategic move that can bring them long-term benefits.

In summary, the most important institutional coercive force for the historical increase of CSER in China was reporting regulations, which caused certain categories of companies to begin CSER. The reporting practice of these companies, in compliance with the government as a powerful stakeholder, then triggered another enabler, peer pressure, which drove the adoption of CSER by some companies that were not obligated by the regulations to do so. In addition, with more companies issuing CSR reports and the government's advocacy, some senior managers became aware of CSER and its positive influence on company image, which also impelled the engagement in CSER by companies. Despite the rapid increase in CSR reports since 2008, the response by companies to institutional pressure for CSER has generally taken a reactive approach. The fundamental barriers to taking a proactive approach to CSER are: management belief in the negative influence of CSER on profitability and the perceived lack of public demand for this information. Although benefits to company image are an incentive of CSER, with lower social attention on CSR in China, having a reputation for CSR in China is probably less valuable for companies than it would be for companies in developed countries. Companies in China still lack enough internal drivers and initiatives to engage in CSER, which is a reason for the low quality of CSR reports as mentioned in Chapter 3. The theoretical interpretations of the findings in the next section provide some insightful explanation of the evolving CSER phenomenon in China.

## 6.6 THEORETICAL INTERPRETATIONS OF FINDINGS

In understanding the CSER phenomenon in China, the findings of this study appear to partly resonate with the systems-oriented theoretical framework (i.e. institutional

theory, stakeholder theory and legitimacy theory). These three widely invoked theories in CSER studies have been described in detail in Chapter 2 'Literature Review'. This section discusses the applicability of these Western-based theories in interpreting the CSER phenomenon in China. Table 6.1 provides the drivers of CSER adoption in China and the corresponding theoretical insights upon which the study reflected.

### 6.6.1 Institutional theory

The findings of this study appear to resonate well within the Chinese institutional context. Institutional theory asserts that various external pressures within an organisational field/sector cause institutional isomorphism (DiMaggio and Powell 1983) with the tendency towards convergence in the practice of organisations in a particular context (Larrinaga-González 2007). In this study, the organisational field appeared to be the industrial sector. The social legitimacy of the companies in a sector is defined by the values, norms, rules and taken-for-granted assumptions in the institutional environment (Scott and Meyer 1994). Companies in the same field share the same criteria of social legitimacy, so their practices tend to be convergent. Institutional isomorphic change occurs through three mechanisms: coercive, mimetic, and normative, and the distinctions among these three types of isomorphism are not always absolutely clear-cut (DiMaggio and Powell 1983).

From an institutional theory perspective, regulations and government influence, the foremost driving force of CSER in China emerging from this study, are coercive mechanisms. Disclosure requirements imposed by the two stock exchange regulators and the SASAC were the formal obligatory pressure exerted on the companies, while the government's advocacy was an informal political influence. The coercive mechanisms forced the companies to respond to the regulations or to pressure from the government by issuing CSR reports, which explains the dramatic historical increase in CSR reports in China since the disclosure requirements and government advocacy in 2008.

Peer pressure, as another important enabler of CSER in China revealed in this study, can be interpreted through mimetic isomorphism. Mimetic isomorphism explains some trends in the organisational field results with the view that organisations when facing uncertainty imitate their peers that were perceived to be successful (Larrinaga-González 2007). Participant No. 11 from an SOE mentioned that the CSER practice of

another SOE was highly praised and encouraged by the Prime Minister in 2006; after that, the company he worked for and another SOE also started to produce CSR reports in 2007. This is a good example of companies imitating peers' CSER practice which was deemed to be successful in enhancing their reputation. However, many participants referred to the common practice in their field, not necessarily the leading companies' practice. In some industries, such as the banking and finance sectors and the dairy sector, the majority of large companies had produced CSR reports. Some industrial associations also provided guidelines for their members, such as the *Guidelines on the CSR of Banking Institutions of China* issued by the China Banking Association. Companies in these industries tended to consider CSER as an institutional norm.

On the other hand, the mimetic mechanism is also plausible in explaining why some companies did not issue CSR reports. Many participants from non-reporting companies during the interviews raised the point of peer companies that did not produce CSR reports. In some industries where the common practice was 'not reporting', the mimetic mechanism could also lead companies to follow the tendency by imitating their non-reporting peers.

In this situation, the low-key Chinese "culture–cognitive" institutional forces (Scott 2002) of shared beliefs prevailed in explaining the resistance to CSER operating alongside the normative controls and regulatory systems. The lack of external pressure attributable to the low-key Chinese culture, insufficient regulations and lack of public awareness also translates into lack of internal pressure causing senior managers' lack of motive in embracing CSR and CSER. As observed in this engagement-based study, the focus on external and internal institutional pressures seems to be useful in explaining, in part, the CSER phenomenon in China.

**6.6.2 Stakeholder theory**

The findings of this study align to a certain extent with both branches of stakeholder theory. According to the normative branch of stakeholder theory, organisations have moral obligations and responsibilities toward all their shareholders owing to the intrinsic rights of stakeholders (Donaldson and Preston 1995; Unerman 2007). The intrinsic awareness and morality impelled senior managers to hold their companies accountable to their stakeholders by making them believe that it was their ethical duty.

Management awareness (or the lack thereof) was found to be a major enabler of (or barrier to) CSER in China in this study. Several participants talked about their companies' responsibilities and accountability towards their stakeholders and society.

As Deegan (2012) suggested, the normative branch of stakeholder theory cannot be tested, and the participants might tend to say something nice about their companies as a result of "Mianzi (face 面子)" culture in China. However, the researcher still believes most participants seemed to be concerned about their stakeholders, at least to a certain degree, as they provided real examples of their companies' CSR practices, such as their philanthropic activities, and their efforts towards employee well-being, product safety, energy saving and emission reduction.

According to the managerial branch of stakeholder theory, instead of treating all stakeholders equally, companies exert more effort in managing their relationship with stakeholders who have more power in relation to their business (Gray, Owen and Adams 1996). Many empirical studies have found that CSER is used as a tool by companies to manage particular stakeholder groups such as the media (Brown and Deegan 1998); international customers (Belal 2008; Islam and Deegan 2008; Dong, Burritt and Qian 2014); NGOs (Deegan and Blomquist 1996); environmental lobby groups (Deegan and Gordon 1996); shareholders and employees (Lindorff and Peck 2010); and the government and regulators (Rowe and Guthrie 2010). In this study, it seems that the Chinese government and regulators were the most salient stakeholders in the eyes of the participants. The study revealed that regulations and government advocacy were primary enablers of CSER in China. Many participants mentioned companies, especially SOEs, answering the call of the government and regulators to issue CSR reports, and some admitted that they wanted to build a good relationship with the government and the regulators. For instance, Participant No. 3 told the researcher that one of the main reasons why they always made huge donations to disaster areas was because his company wanted to maintain a good relationship with the government. "Guanxi (关系 relationship)" is crucial in the Chinese business world.

From the perspective of the managerial branch of stakeholder theory, companies might see CSER as an instrument to manage their relationships with the Chinese government, an important stakeholder which supports CSR. For example, in the banking industry, state-controlled banks paid more attention to their own CSR practices and assigned a

larger weight to social and environmental impacts on borrowers when they made loan decisions. Different from privately-owned banks, in addition to creating wealth, they also served as tools of the government in achieving social welfare, following the strategic direction of the government (Tian and Estrin 2007; Chen et al. 2010). As stated by Participant No. 1 from a state-owned bank, *"[s]ome small banks may care more about profit, some heavy polluting projects may still be granted credits, but this will never happen in our bank or other state-owned banks"*.

### 6.6.3 Legitimacy theory

Legitimacy theory can partially explain a relatively weak enabler of CSER in China as revealed in this study－public pressure. As mentioned in Chapter 2, legitimacy theory is imbedded in the notion that there exists a 'social contract' between the organisation and the society in which it resides: to fulfil this social contract that enables its survival in society, the organisation must ensure its practices are perceived as being legitimate by society.

Owing to the low public awareness of CSER in China, many participants did not believe that their companies were subject to challenges threatening their legitimacy that were associated with their social and environmental impacts. However, companies facing controversial issues and negative news tended to be under greater pressure from the public, and were more likely to disclose CSR information to justify their legitimacy. Companies in the dairy industry were a good example. Following a series of national food safety scandals, the three largest companies in the dairy industry voluntarily produced CSR reports. Participant No. 12 from a dairy company asserted that it was necessary to strengthen communication between the company and stakeholders in order to rebuild the confidence of the market. From a legitimacy perspective, CSER could be used by these companies to defend their social licence to operate.

**Table 6.1: Theoretical interpretations of the findings**

| Factors of CSER adoption | Related Theories |
|---|---|
| Regulations and government influence | • Institutional theory － coercive mechanisms (DiMaggio and Powell 1983)<br>• Stakeholder theory － managerial branch (Gray, Owen and Adams 1996) |
| Peers' practice | • Institutional theory － mimetic mechanisms (DiMaggio and Powell 1983) |
| Management awareness | • Stakeholder theory － normative branch (Donaldson and Preston 1995) |
| Public pressure | • Legitimacy theory<br>Seek to ensure their operations meet social expectation<br>(Deegan 2009)<br>Reduce legitimacy gap when it occurs<br>(Lindblom 1994) |
| Benefits of reporting | • Not applicable |

## 6.7 Strategies to advance CSER in China

CSER in China has made encouraging progress in recent years, but it is still at a preliminary stage of development. The majority of participants in this study were positive about the future adoption of CSER in China, and many provided recommendations to advance it. Their suggestions, together with the enablers of and barriers to CSER identified in this study, were considered in order to refine the best ways forward to achieve wider diffusion of CSER in China. These strategies can be broadly classified into two categories: pushing strategies which aim to force companies to engage in CSER, and pulling strategies which seek to encourage companies to adopt CSER actively. Pushing strategies tend to reflect coercive and normative institutional isomorphism, while pulling strategies are more akin to mimetic and normative institutional isomorphism. Figure 6.4 provides a snapshot of the strategies with the details elaborated in the following two subsections. In particular, the Chinese government is expected to play a leading role in promoting CSER in the short term to middle term. In the long term, it is critical to shift companies' attitudes from reactive compliance to proactive engagement to achieve CSER diffusion in China.
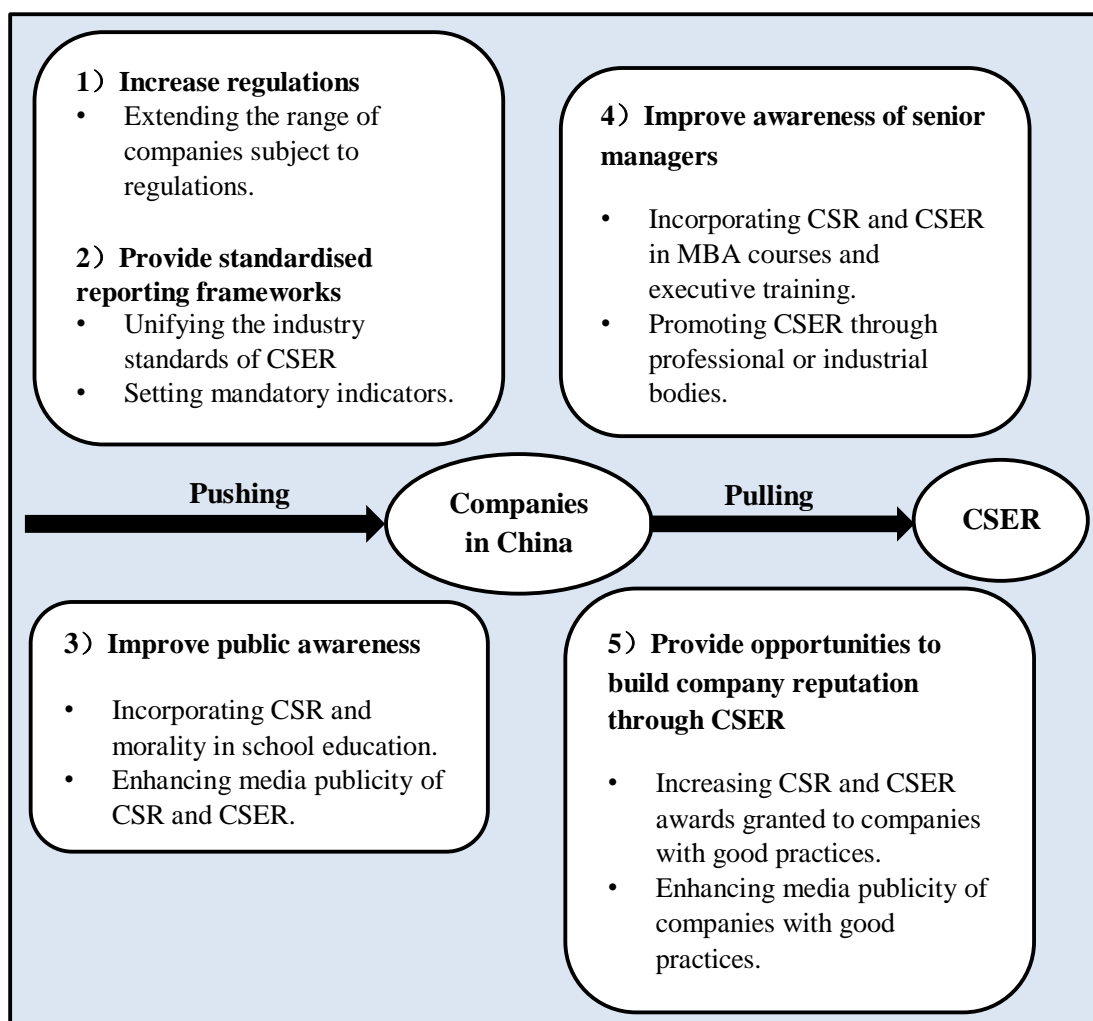
**Figure 6.4: Strategies to advance CSER in China**

## 6.7.1 Pushing strategies to encourage CSER

Three pushing strategies within short-term, medium-term and long-term frameworks are explained in detail in the following paragraphs.

**a) Increasing regulations: short-term strategy**

Increasing regulations for CSER is probably one of the best ways to improve the level of CSER in the short term. The majority of participants considered that extending the range of companies obligated under regulations was the most effective way to have more companies in China start CSER. In addition, the findings of this study suggest that the existing regulations are the largest enabler of CSER in China, while insufficient regulation is a major barrier. In addition, as mentioned in Chapter 2, the

dramatic increase in CSR reports, after the issuing of regulations in 2008 for certain categories of companies, demonstrates the strong influence of regulations.

In the short term, regulatory authorities should mainly focus on companies in heavy polluting industries and those with greater social impact. As these companies have a greater impact on the environment and society, more regulatory requirements are needed to hold them responsible for their activities through greater transparency. When the large leading companies have issued their CSR reports, other companies in their industries would be pressured to follow them. Once CSER becomes a trend, the companies not obligated under regulations would also start embracing CSER to keep up with the majority as a result of peer pressure, which was found to be another major enabler of CSER in China. Meanwhile, the low-key culture (avoiding standing out)—a major barrier to CSER—would be removed if it were a common practice of companies in China to issue CSR reports. Therefore, it is necessary to encourage more companies to start CSER at this early stage.

However, increasing regulations can only improve the quantity of CSR reports, but not necessarily their quality. Unlike financial reporting, which has a mandatory standardised framework and mature auditing procedure, CSER in China has no standardised reporting framework and CSER auditing is not a common practice. The generally loose and varied guidelines provided by different regulators leave companies with the freedom to selectively disclose favourable information which largely impairs the comparability and credibility of CSR reports.

**b) Issuing standardised CSER frameworks: middle-term strategy**

One challenge faced by CSER is emergent metrics and widely varying measures: these lead to vague, misleading information and impair the materiality of the reporting (World Bank 2004). To improve the quality of CSER, standardised CSER frameworks with mandatory quantitative indicators for companies in different industries need to be developed and provided to companies. As there is probably no single CSER framework that fits all companies in different industries, regulatory authorities should work with industry associations and professional institutions to set unified industry standards for CSER. When developing the reporting frameworks, ideas can be adapted from the existing CSER guidelines such as the world's leading CSER framework, GRI, and *Material and Quantitative Indicators Guideline for CSR Report* recently issued by

SynTao (2014), a Chinese professional CSR consultancy. Standardised reporting frameworks will not only make it easier for small and medium-sized companies to build their reporting systems, but also will largely improve the credibility and value of CSER. After releasing the reporting frameworks, free training should be provided to companies on how to apply them to facilitate their adoption.

Issuing more detailed requirements and reporting frameworks is not enough. It is also important to enforce companies' compliance. At this early stage of CSER in China, it is more practical to encourage companies to adopt independent auditing of their CSR reports, rather than making it a regulation. Unlike the potential value that shareholders and investors place on financial reporting, there is a lack of public awareness and demand for CSER in China. As the public are unlikely to be actively involved in overseeing CSER at this stage, the inspection task will largely come down to regulatory authorities. However, the regulators would not have enough personnel and resources to inspect all CSR reports. Therefore, the enforcement of CSER also needs the involvement of the public and the support of mainstream values.

### c) Improving public awareness: long-term strategy

Improving public awareness is a fundamental long-term solution to improving CSER in China by involving the public in participation in the enforcement of companies' CSER practice. As suggested by the findings of this study, a fundamental barrier to CSER in China is the lack of public awareness about CSER by companies expect for that of controversial companies. If the public have a high level of awareness of CSR and CSER, they will actively oversee companies' practices which could compensate for insufficient inspections by regulators. High societal expectations of CSR can even push the companies that are not obligated under reporting regulations to spontaneously issue CSR reports in order to maintain their legitimacy.

School education is a fundamental way to cultivate morality and CSR awareness of the public from childhood.

- Primary schools could educate children to behave in an ethical way and to care about society and the environment.
- High schools could enhance morality and civic duty, teaching students that both individuals and companies have responsibilities towards society.

- Universities could set courses about sustainability, CSR and CSER.
- Business schools and schools of accounting could also incorporate sustainability reporting or CSER as compulsory courses.

Children and young people are the future of China, and some will be the leaders of companies in the future. If the morality of the future generation in China is cultivated through education, a positive social atmosphere of corporate citizenship and CSR will be created, and companies will then be under more pressure to take their CSR seriously and produce their CSER.

In addition, extensive and long-term media publicity could also help to create supportive mainstream values. The media, including television, newspapers, radio, magazines and websites should increase the coverage of CSR in China. The public should be informed that companies have social and environmental impacts on them, and obligations towards them, and about the ways in which CSER would benefit them. In China, state-run media outlets hold a significant market share; therefore, the Chinese government could use its influence to increase media coverage of CSR issues.

This long-term process of public awareness for CSER development that involves all stakeholders (including ministries, local authorities, NGOs, professionals, academics and community members) is known as "capacity building" (United Nations Committee of Experts on Public Administration 2006). The UNDP (2014) outlines that capacity building takes place at an institutional level (institutional rules and regulations), societal level (public awareness) and individual level (managerial awareness). The next subsection discusses the pulling strategies and the relevance of capacity building in improving managerial awareness and reputation enhancement for embracing CSER in China.

### 6.7.2 Pulling strategies to encourage CSER

#### a) Improving senior managers' awareness

In this study, senior management awareness was found to be a critical factor for CSER adoption in China. If the management of a company has a high level of awareness of CSR and CSER, it is most likely that the company will take the initiative to engage in CSER, allocating more resources to it. Capability building by improving senior

managers' awareness and through training can enhance both the quantity and quality of CSER.

As individuals in society, senior managers are also influenced by social mainstream values. Therefore, ways to improve public awareness of CSR will also work on senior managers. In addition, there are two other solutions to directly promote CSER to senior managers.

Firstly, CSR and CSER should be incorporated in MBA courses and executive training. In China, MBA courses are popular among senior managers, and executive training is common in most companies. The findings of this study suggested that although some senior managers have CSR awareness, they do not have a good understanding of it. They tend to see CSR activities and reporting as a sacrifice of profitability. It is important to encourage senior managers' awareness that "CSR can be much more than a cost, a constraint, or a charitable deed－it can be a source of opportunity, innovation and competitive advantage" (Porter and Kramer 2006, 78), and to enlighten them that a strategic approach to CSR can create shared value for the business and society (Porter and Kramer 2011). In addition, the findings also showed that quite a few participants knew little about CSER, including its value. Some companies that engaged in many CSR activities did not think there was a need to publicly broadcast their CSR practice, which was actually a significant lost opportunity, because "communicating and branding CSR can be an innovative and valuable business strategy to reach critical constituencies inside and outside the corporation" (McElhaney 2009, 34). CSER is an important component of strategic CSR as stakeholders, such as customers, employees, suppliers, business partners, investors and peers cannot factor a company's CSR practice into their decision making if they do not know about it (McElhaney 2009). Hence, relevant courses are needed for senior managers to cast light on the strategic value of CSR and improve their knowledge of CSER.

Secondly, as most senior managers in China are members of professional or industrial bodies, these bodies can promote CSER through their network by:

- Arranging seminars on CSR and CSER education.
- Arranging guest speakers on their companies' CSR or CSER practice.
- Organising informal CSR thematic networking activities.

- Working with media to provide some awards to their members' companies with outstanding CSR or CSER practice.
- Regularly incorporating successful stories of CSR and CSER practice of leading or members' companies in institutional members' newsletters and journals.

These activities could be a great channel for members from different companies to engage in some 'community of practice' peer-to-peer communication about CSR and CSER. The members from companies that have adopted CSER could act as opinion leaders in spreading ideas of CSER to others who have little knowledge of it. According to Roger's (2003) innovation diffusion theory, the influence of opinion leaders, who are mostly early adopters, is often used to spread new ideas through their social networks. A major enabler of CSER in China is peer pressure, while a large barrier is a low-key approach. Some senior managers are worried that CSER may draw unnecessary attention and cause a negative impact on their companies. Hearing successful stories of CSER from their peers who lead by example would not only inspire these senior managers to engage in CSER, but would also eliminate their concerns.

In addition to improving senior managers' knowledge of CSR and CSER, it is also important to make senior managers aware that CSR and CSER are an emerging trend in China that encourages mimetic institutional isomorphism and the adoption of a common practice (i.e. institutional norm) among leading companies.

**b) Providing opportunities to build company's reputation through CSER**

The provision of opportunities to build a company's reputation through CSER can encourage companies' initiatives in disclosing CSR activities. Whilst the perceived lack of an appropriate economic return from CSER was a huge disincentive, enhancement of company image was identified as a major incentive for CSER in China. Companies that focus excessively on economic profit are reluctant to invest in CSR and CSER, because they cannot see an appropriate economic return. If CSER could help to create a good public image for companies, they would be more likely to take the initiative to adopt it. Company reputation is an intangible asset and with competitive advantage can bring companies long-term economic benefit.

Winning CSR or CSER awards is another good opportunity to build the reputation of companies. Current CSR and CSER awards in China include the China Best Corporate Citizen, Golden Bee CSR China Honour Roll and Golden Bee Excellent CSR Report, and awards for the best CSR report in different industries. Many participants in this study were very proud of the relevant awards that they had won, and their companies always listed these awards in their published CSR reports and websites. During the familiarisation study, the researcher was told that the senior management of two companies intended to win such awards. Hence, the media, industry associations and professional rating agencies could grant prestigious CSR and CSER awards to companies with superior practice across a variety of industries and regional locations, and disseminate information on winning companies. Furthermore, they could jointly arrange CSR and CSER forums and honorary ceremonies, and invite leading companies and the media to attend. The government authorities could show support for these activities and endorse major awards.

In addition, it is important to enhance the media publicity of successful companies or of companies with good CSR or CSER practices. Increased media coverage will also draw public attention to CSR and CSER which is not only a positive pressure but also an encouragement to companies. If companies' public image is influenced by their CSR and CSER practice, they will be motivated to engage in CSR activities and reporting.

### 6.7.3 Government's roles in advancing CSER

The pushing strategies of increasing regulations and standardisation of CSER also require government institutional intervention. As previously mentioned, unlike companies in Western developed countries, Chinese companies are subject to rigid central government control. As a result of its power over companies, the Chinese government was regarded by participants as the most important stakeholder as it could exert a significant influence on the CSER of companies. In addition, the findings of this study show that the market in China does not offer sufficient incentives for companies to adopt CSER on a voluntary basis. Therefore, the Chinese government should take the lead in advancing CSER in China.

The World Bank (2004) suggested five actions that governments in developing countries could take to advance CSER, namely:

- Mandating reporting requirements through company law, stock listing regulations or direct disclosure laws, and ensuring compliance by requiring external auditing and assurance.

- Facilitating CSER through the development of reporting guidelines and the dissemination of best reporting practices in industries, and the provision of incentives such as tax benefits, and trade and investment promotion.

- Partnering with other groups to support CSER by building networks to facilitate learning from reporting companies, providing collected data and convening stakeholders to facilitate dialogue.

- Endorsing CSER by supporting award programs, honouring companies with superior practice and disseminating information about them.

- Demonstrating the principles of transparency to private sector entities by disclosing the government's own activities.

Some of the above government roles fit well with the proposed strategies for advancing CSER in China. Firstly, the Chinese government could have regulatory bodies to expand the range of companies obligated under mandatory requirements. Secondly, Chinese government agencies could develop standardised reporting frameworks together with industry associations and professional institutions. Thirdly, the Chinese government could work with the State Education Commission to incorporate CSR and CSER in schools and higher education. Lastly, Chinese government agencies could officially endorse CSR and CSER awards granted by the media and rating agencies. In addition, as the government has strong control over the Chinese mainstream media (Yang, Craig and Farley 2015), it could facilitate publicity for CSER and CSR to increase the awareness of the public and companies.

### 6.7.4 The fundamental way to achieve CSER diffusion in China

Although the Chinese government's coercive institutional involvement could be a strong driving force, the diffusion of CSER cannot solely rely on companies' passive compliance with regulations. If companies only engage in CSER as a result of mandatory regulations or government pressure, it is likely that they will make minimal level disclosures as a symbolic gesture: the real purpose of CSER will thus not be served. Therefore, in addition to mandatory regulations and the government's coercive

influence, companies need to become actively engaged in CSER of their own free will which is the fundamental way to achieve advanced CSER in China.

According to Rogers (2003), there are five stages in an individual/organisation's decision-making process about innovation—CSER, in this case. During this process, the government should take on the role as a change agent to positively influence companies' CSER decisions. Figure 6.5 illustrates the stages and what needs to be done at each stage to facilitate CSER diffusion in China. The first stage is to create company (i.e. management) awareness and knowledge of CSER, as has been discussed in subsection 6.7.2.
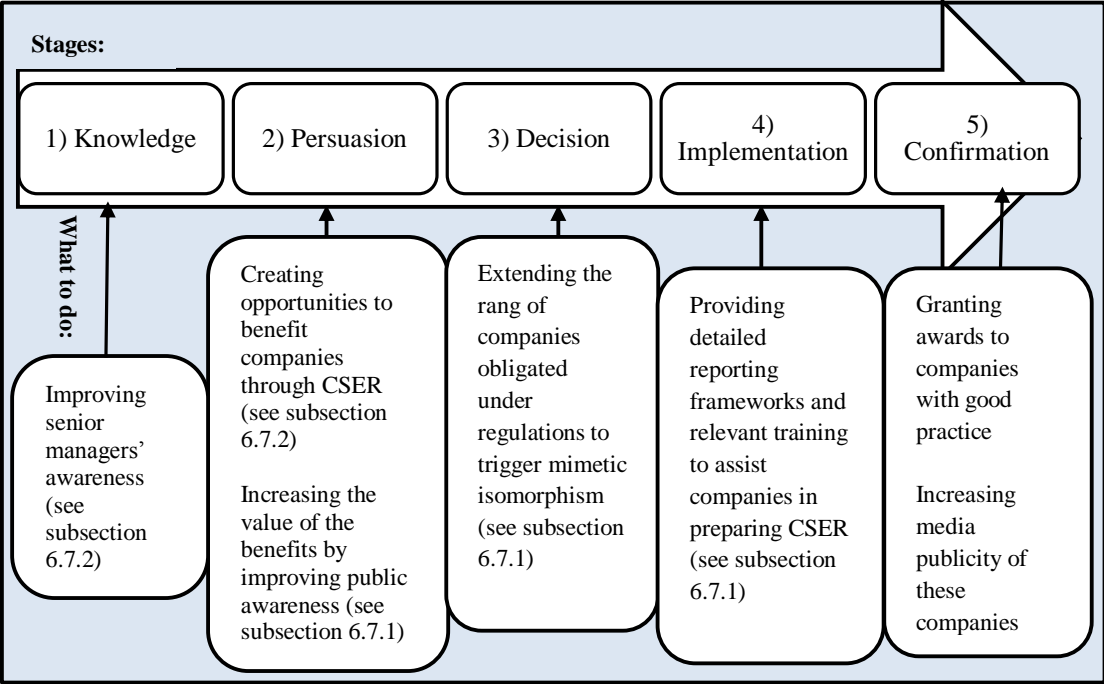
**Stages:**

| 1) Knowledge | 2) Persuasion | 3) Decision | 4) Implementation | 5) Confirmation |
|---|---|---|---|---|

**What to do:**

| Improving senior managers' awareness (see subsection 6.7.2) | Creating opportunities to benefit companies through CSER (see subsection 6.7.2)  Increasing the value of the benefits by improving public awareness (see subsection 6.7.1) | Extending the rang of companies obligated under regulations to trigger mimetic isomorphism (see subsection 6.7.1) | Providing detailed reporting frameworks and relevant training to assist companies in preparing CSER (see subsection 6.7.1) | Granting awards to companies with good practice  Increasing media publicity of these companies |
|---|---|---|---|---|

**Figure 6.5: Five stages in companies' CSER decision process**

Source: adapted from Rogers (2003, 170)

The second stage, persuasion, is critical as it is at this stage that companies (i.e. their management) develop a favourable or unfavourable attitude towards the new idea. Management attitude was revealed as a large direct influence for CSER adoption by companies in this study. Before forming an attitude, companies (i.e. their management) will weigh the advantages (i.e. benefits) and disadvantages (i.e. costs) of the new idea (i.e. CSER in this case) (Rogers 2003). The costs of CSER include the direct costs of gathering and disseminating information; indirect costs from investing in CSR activities, such as philanthropic activities to have some positive information to report;

and potential costs from public reaction to their reporting. As revealed in this study, increasing costs without an appropriate economic return was a large disincentive for the adoption of CSER by companies. In reality, most companies are likely to be unwilling to bear the costs without receiving appropriate benefits, even if they regard CSER as a good thing. Therefore, it is important to convince companies that there is no conflict between CSER and their economic performance; they can 'do well by doing good'.

Drucker (1984) asserted that companies can discharge their CSR only if it is converted into business opportunities. Carroll and Shabana (2010, 100) described CSR activities (including CSER) as having a win-win perspective: "by engaging its stakeholders and satisfying their demands, the firm finds opportunities and solutions which enable it to pursue its profitability interest with the consent and support of its stakeholder environment". A perceived socially responsible company is more likely to have a good reputation, lower unsystematic risk, and greater loyalty and commitment from its stakeholders (Bernhut 2002). These competitive advantages will contribute to the company's long-term success. Importantly, the more attention the public/stakeholders pay to CSR and CSER, the greater these intangible benefits will be. Therefore, it is essential to improve public awareness of CSR and CSER in China, as has been discussed in subsection 6.7.1. In addition, Rogers (2003) mentioned that when facing the uncertainty of a new idea, companies will seek social reinforcement from others, and he suggested that the positive experiences of peers with the innovation (i.e. CSER) would be a cue to action (see subsection 6.7.2).

The third stage is decision, at which stage companies will make a small-scale trial of the new idea if possible. For example, Participant No. 8 told the researcher that her company disclosed a very small amount of negative information in its last CSR report to test the public reaction. She said that if this had a negative influence on the company, negative news would probably not be disclosed in future. To encourage companies to make complete, fair disclosures, the media and the public should show more support to companies' self-examination instead of holding the negative news against them. In addition, Rogers (2003) remarked that demonstrations from early adopters will speed up the diffusion process, and that group pressure for the acceptance of a new idea works better in a collectivist culture like China. This resonates well with the study's revelation that peer pressure is an important factor for CSER in China. Therefore, it is

important to encourage more companies to start CSER at an early stage in order to trigger mimetic isomorphism. Subsection 6.7.1 mentioned the strategy of extending the range of companies subject to regulations.

The fourth stage is implementation of the new idea. At this stage, many companies will encounter operational problems and will need technical assistance (Rogers 2003). Many participants in this study stated that CSER was a fairly new concept to them and they did not know it very well. Therefore, government bodies, as change agents, should work with industry associations and stock exchange regulators to provide free training about disclosing CSR reports with clear guiding reporting frameworks, which will not only make it easier and cheaper for companies to prepare CSER, but will also improve the quality of the reporting. This strategy was discussed in subsection 6.7.1.

The final stage is confirmation in which companies will seek reinforcement for their adoption of CSER. If companies can recognise the benefits of using the innovation they have adopted, they will integrate it into their ongoing routine and prompt others to do likewise (Rogers 2003). Hence, after companies have engaged in CSER, it is important to demonstrate the benefits mentioned in the second stage and to minimise negative reactions in order to encourage companies to integrate CSER into their business routine in the long term. Granting relevant awards and enhancing positive media publicity will help to reinforce companies' idea of CSER adoption.

In short, the government's coercive involvement will be efficient in advancing CSER at the primary stage. However, to achieve the diffusion of CSER in China in the long term, it must be institutionalised as a regularised part of companies' operations and made a part of the value system and culture of companies in China.

## 6.8 SUMMARY

This chapter has discussed the findings from the interview data, complemented by the body of knowledge from the existing literature on CSER, the historical development of CSER in China and the theoretical perspectives. The chapter has explored the CSER phenomenon in China mainly through understanding two main themes, namely, the enablers of (RQ.1) and the barriers to CSER in China (RQ.2). Emanating from senior managers' answers collected through the interviews, strategies have been suggested to advance the disclosure of CSR activities in China (RQ.3).

The findings of this study appear to align well with the three social systems-based theories. In particular, the coercive mechanism of institutional theory provides an interpretation of the major enabler revealed in this study, namely, regulations and government influence. The mimetic mechanism of institutional theory offers a plausible explanation of another enabler, peer pressure. In addition, another enabler, management awareness, resonates with the normative branch of stakeholder theory, while the government influence on CSER fits well with the managerial branch of stakeholder theory. In addition, legitimacy theory provides insight into a relatively weak enabler, public pressure.

Finally, in this chapter, based on suggestions from the participants and the study's findings, two categories of strategies were refined to advance CSER in China (RQ.3), namely, pushing strategies and pulling strategies. Pushing strategies (including increasing regulations, providing standardised reporting frameworks and improving public awareness) aim to force companies to produce CSR reports. Pulling strategies (including improving the awareness of senior managers and providing opportunities to build company reputation through CSER) seek to encourage companies to actively engage in CSER. The Chinese culture of collectivism (Hofstede 2007; Hofstede, Hofstede and Minkov 2010) in terms of "community capacity building" (United Nations Committee of Experts on Public Administration 2006) is the overarching 'push and pull' strategy for encouraging CSER. Collectivism could be a strategic advantage of CSER in China if CSER becomes embedded as a value embraced by the community. At the end of this chapter, the important roles that the Chinese government should take to advance CSER in China were emphasised, with the chapter highlighting that the fundamental way to achieve CSER diffusion is to transfer passive compliance to active engagement in the long term.

# CHAPTER 7: CONCLUSIONS

## 7.1 INTRODUCTION

This final chapter firstly presents an overview of the thesis and then highlights the major findings and implications. The chapter next discusses the original theoretical and practical contributions of the study. Lastly, it illustrates the limitations of this study and points out the potential for future research.

## 7.2 OVERVIEW OF THE STUDY

The primary purpose of this study was to gain an 'emic' understanding of the normative assumptions underpinning the complex corporate social and environmental reporting (CSER) phenomenon in China through the 'lenses' of senior managers by adopting qualitative methodology. This study was mainly motivated by the lack of engagement-based studies (Belal and Momin 2009; Owen 2008) and studies on CSER research in developing countries (Islam and Deegan 2008; Belal and Cooper 2011). In addition, it was considered fascinating to probe the reasons behind the rapid growth of CSER in China in terms of the amazing increase in CSR reports since 2008. Whilst an increasing number of companies have published CSR reports, they are still a small minority in China. CSER in China is still in its infancy (Noronha et al. 2013), with many problems (SynTao 2012b; China WTO Tribune 2013) and reporting of much lower quality than is issued internationally (KPMG 2013). Hence, it is also important to investigate the barriers that hinder the growth of CSER in China in order to reduce them. To understand the rationale behind companies' CSER decisions, this study has probed senior managers' perceptions of CSER using the qualitative approach. More specifically, the three main research objectives were to: explore the enabling motivations of (RO.1) and impediments to (RO.2) CSER adoption in China from the managerial perspective and to discover effective enablers that would most likely to encourage the advancement of CSER in China (RO.3).

After a general introduction (Chapter 1), the main body of this thesis started with an extensive review of the CSER literature with a focus on empirical studies and widely adopted theoretical perspectives in CSER research (Chapter 2). The thesis then provided an overview of the institutional context in China, together with the historical development of CSER in China within its specific context (Chapter 3).

To allow the participants' views to emerge, this study adopted an inquiry paradigm utilising constructivist ontology, interpretivist epistemology and qualitative methodology (Chapter 4). The primary data collection method was the semi-structured in-depth interview. To achieve an all-round knowledge of CSER in China, the sample covered senior managers from different types of companies in various industries in China, including both reporting and non-reporting companies. Data collection and analysis was an iterative process which continued until data reached saturation, when all the emerging concepts were well defined and organised (Corbin and Strauss 2008). Next, the findings summarised from the interview data, along with extensive quotes from participants, were presented (Chapter 5). They were then triangulated with the existing literature, the current status of CSER in China and the theoretical knowledge to gain a comprehensive understating of the CSER phenomenon in China (Chapter 6). Finally, suggestions to advance CSER in China were proposed (Chapter 6).

## 7.3 MAIN FINDINGS AND IMPLICATIONS

While most studies infer the motives behind CSER by using quantitative content analysis to identify the determinants of disclosure levels, this engagement-based study has directly explored the motives for and obstacles to adopting CSER via interviews with senior managers in China.

In relation to the first research question regarding the main enablers driving CSER in China, the following enablers were revealed in the findings:

- Regulations and government influence
- Management awareness
- Benefits to company image
- Peer pressure/reporting by peers
- Public pressure on controversial companies.

In relation to the second research question, the main barriers hindering CSER in China were revealed in the findings as:

- Insufficient regulations
- Lack of management awareness
- Increasing cost without an appropriate economic return
- Low-key Chinese culture and non-reporting by peers

- Perceived lack of public awareness.

These enablers and barriers suggest that CSER in China is influenced by both external factors in an institutional context and internal factors at the corporate level. The political, social and economic dynamics at the macro level decide the extent of institutional pressure on companies' CSER in China. These external pressures, together with internal management attitudes, determine companies' CSER decisions.

The *political context* in China is in favour of CSER. The Chinese government, which has actively promoted the concepts of sustainable development and CSR, was perceived by the participants as a major influence for CSER in China. This enabler is consistent with the results of previous studies (e.g. Dong, Burritt and Qian 2014; Marquis and Qian 2014; Liu and Anbumozhi 2009; Rowe and Guthrie 2010). Compared with governments in Western countries, the Chinese government has more power over companies due to its control of a significant portion of scarce resources, its significant ownership of many large companies in China and its direct influence on the management of state-owned enterprises (SOEs). In Chinese business culture, "Guanxi (relationship 关系)" is of vital importance. A large motive for companies (especially SOEs) to adopt CSER is to maintain a good relationship with the Chinese government which is supportive of CSR and CSER. In addition to government influence, reporting regulations were found to be an important influence concerning CSER in China. As stated in Chapter 3, there has been a massive increase in CSR reports in China since 2008 when reporting requirements for certain categories of companies were issued by the SASAC and the stock exchange regulators. While these coercive institutional requirements were perceived as a driving force for CSER adoption in China, lack of regulations for other categories of companies turned out to be a great barrier to CSER adoption. High-power-distance (Hofstede, Hofstede and Minkov 2010), as a normative Chinese cultural trait, suggests that China's accounting and disclosure practice supports statutory control. Those companies not obligated under reporting requirements tend to think it is unnecessary to go beyond compliance reporting. In addition, the existing reporting requirements in China were regarded as being too lenient to ensure that CSER was of sufficient quality.

In the *social context*, two important considerations of companies' CSER adoption are peer companies' practice and public pressure. Firstly, institutional mimetic

isomorphism prevails through peer companies' reporting practice, which was found to be a driving force for some companies' CSER, while peers' non-reporting practice turned out to be a discouragement to other companies. Influenced by a collectivist Chinese culture, Chinese companies tend to stay in groups by keeping the same practice as their peers, whether they are reporting or non-reporting. Moreover, in a low-key Chinese cultural norm, companies are inclined to avoid standing out, so as not to draw unwanted attention. Therefore, companies are more likely to resist CSER if it is not a common practice among their peers. Companies' imitation of peers' CSER practice was also found in some prior studies (e.g. Aerts and Cormier 2009; Shen and Su 2012).

Secondly, public pressure on controversial companies was regarded as a driving force for their CSER, but the public awareness of CSER in general was perceived to be fairly low which is a primary barrier to CSER in China. Companies in China believe that, compared with their social and environmental impact, they are under much more pressure in regards to their economic performance. The public's low awareness of CSER is to a great extent attributed to their excessive focus on economic interests, and to the absence of relevant education in China. Lack of public awareness of and demand for CSER was also identified as a significant disincentive to CSER in other studies such as those by Rowe and Guthrie (2009) and Stubbs, Higgins and Milne (2013). To conclude, these findings are basically in line with previous studies: the social environment that impels companies to adopt CSER has not been an established common practice in China (Gao 2011), and there is still the lack of a conducive normative environment with sufficient peer pressure in terms of CSR and CSER in China (Yin and Zhang 2012).

The *economic context* in China has a great influence on its CSER. To discharge their CSR, companies have to be profitable (Carroll 1991; Drucker 2011). Economic performance directly influences companies' ability to bear the cost of CSR and CSER (Ullmann 1985). On one hand, since the economic reform in 1978, China has achieved amazing economic development, which has lifted hundreds of millions of people out of poverty and provided tens of millions of business opportunities for companies in China. Those without survival concerns are more likely to consider morality issues (Maslow 1970), such as social and environmental impacts. On the other hand, China is still a developing country with the second largest number of the poor in the world

(World Bank 2014a) and only 9% of Australia's GDP per capita (World Bank 2014c). Hence, it is unavoidable that some people and companies in China may not be able to prioritise CSER, because they have to focus on economic interests at this stage for their survival. Many participants mentioned that some companies in China, especially small and middle-sized companies, might not have sufficient resources to assign to CSR and CSER. Cost was also found to be a barrier to CSER in other studies, such as those by Martin and Hadley (2008) and Rowe and Guthrie (2009).

At the *corporate level*, management attitude was revealed as a critical factor in companies' CSER decision making. Many participants from reporting companies showed a high awareness of CSR and CSER and mentioned the related practice of their companies. Senior managers' support of CSER is a strong enabler due to their direct involvement in decision making in their companies. Meanwhile, the lack of management awareness was found to be a significant barrier to CSER. It is worth noting that some participants actually were aware of CSR but, in terms of CSER, lacked knowledge about it. Senior managers' influence on CSER was also identified in other empirical studies (e.g. Campbell 2000; Belal 2008).

In companies' decision-making processes, a new idea (i.e. CSER) is formed after weighing its costs and benefits (Rogers 2003). Many participants expressed concern about the increasing costs of CSER without an appropraite economic benefits, which was an impediment to CSER adoption by companies. Although CSER may not appear to bring immediate economic returns to companies, its benefit to company image was regarded by the participants as an incentive. In identifying company image as an enabler of CSER, this is in accord with other studies (e.g. Adams 2002; McMurtrie 2005). This motive is also supported by the fact that most CSR reports issued in China only include good news (China WTO Tribune *2013)*.

In terms of theoretical perspectives, the findings of this study appear to partially resonate with three widely invoked Western-based theories in contemporary CSER studies, namely, institutional theory, stakeholder theory and legitimacy theory. From the perspective of institutional theory, regulations and government influence are coercive mechanisms that force companies to issue CSR reports, while both positive and negative peer pressure can be plausibly interpreted with mimetic mechanisms. In accordance with the managerial branch of stakeholder theory, companies are

motivated to engage in CSER in reactive response to the Chinese government and regulators, who are their powerful stakeholders. From the legitimacy theory perspective, controversial companies with negative news are pushed by public pressure to disclose CSR information in order to defend their social licence to operate.

In relation to the third research question regarding strategies to further advance CSER in China, these are classified into two categories and summarised below.

Pushing strategies are used to increase the external pressure:

- Extending the range of companies obligated under regulation
- Providing standardised reporting frameworks with mandatory indicators
- Improving public awareness through the education system and mass media publicity.

Pulling strategies are used to develop internal drivers:

- Improving awareness of senior managers by training through professional bodies, industry associations, etc.
- Providing opportunities to build company reputation through CSER by increasing awards granted to companies for good practice and enhancing media publicity.

Due to China's special socio-political setting, the government has important roles in advancing CSER in China. The government's coercive involvement can be a strong driving force for CSER adoption. However, if companies simply undertake CSER as a symbolic gesture to deal with the mandatory requirements, it will not serve CSER's real purpose. In addition, the government does not have enough resources to supervise and enforce CSER in all companies. Therefore, the long-term strategies are to convert companies' compliance reporting to active engagement, and to increase the public pressure on companies in terms of their CSER. To achieve this, the awareness of the public and of management must be improved and, importantly, in a situation where there is a perceived conflict between CSER and economic performance, it is essential to provide more opportunities for a win-win perspective on CSER to reduce this concern.

## 7.4 SIGNIFICANCE OF THE STUDY

This study is significant in terms of its contributions to the body of knowledge of CSER research and its implications for CSER practice in China.

### 7.4.1 Contributions to knowledge

The original value of this study largely rests with its research context, China, the largest developing country, and its engagement-based qualitative research method. Research on CSER has long been dominated by studies on developed countries, with relatively little known about developing countries (Islam and Deegan 2008; Belal and Cooper 2011) and especially China (Du and Gray 2013; Lu and Abeysekera 2014). The widely adopted theories in CSER research are all based on Western developed countries. As CSER is influenced by the social, political, economic and cultural contexts in different countries (Guthrie and Parker 1990; Williams 1999; Ho and Taylor 2007), the applicability of these theories in an Asian developing country context is questionable.

In addition, most empirical studies of CSER, both in developing and developed countries, focus on investigating the statistical relationships between disclosure levels and influencing factors by quantitative content analysis. Hence, scholars (e.g. Parker 2005; Belal and Momin 2009; Owen 2008) have called for more engagement-based studies to gain a deeper and closer insight into CSER.

Unlike most existing CSER studies, this engagement-based study adopted the qualitative method to explore the CSER phenomenon in China from a managerial perspective. The findings from in-depth interviews with senior managers add rich 'emic' knowledge of the rationale behind companies' CSER decision making to the CSER research within a developing country context.

This study also contributes to the body of knowledge in a systems-oriented theoretical framework by applying institutional, legitimacy and stakeholder theories to illuminate the underpinning assumptions of the CSER phenomenon in China. The findings suggest that these three Western-based theories can also partially explain CSER in a developing country context. In particular, institutional theory appears to be plausible in explaining the institutional context of CSER in China.

**7.4.2 Contributions to practice**

As the largest emerging and developing country, China has a significant influence on the global economy and sustainability. However, China's remarkable economic growth has been accompanied by massive social and environmental issues. To achieve sustainable development in the long term, China needs to improve the accountability and transparency of companies through CSER with respect to their social and environmental impacts.

This empirical study has significant value to CSER practice in China. It offers an understanding of the enablers for and barriers to companies' CSER adoption in China through the lenses of senior managers. The findings may be helpful in assisting the Chinese government and regulators in better comprehending how to set effective policies that promote CSER. Moreover, companies in China may gain some enlightenment from this study in planning their CSER strategies.

In addition, drawn from the study's findings, some strategies to yield improved CSER in China are recommended. At state level, regulatory intervention is probably the most efficient way. Extending the range of companies obligated to report under regulations can increase the percentage of reporting companies in the short term, which will trigger mimetic isomorphism and facilitate the diffusion of CSER in China. In addition, the regulatory authorities should issue standardised reporting frameworks with mandatory indicators to improve CSER quality. At the societal level, an important long-term strategy would be to improve public awareness and engagement which would not only exert pressure but also be an encouragement for companies to embrace CSER practice. Besides enhancing the publicity on CSER, the media could work with government bodies, independent professional institutions and industry associations to appraise CSR reports and grant awards. This would not only benefit the image of companies which had good practice but would also demonstrate their success to non-reporting companies. At the corporate level, CSR and CSER considerations could be incorporated into professional training to improve senior managers' awareness of companies' accountability to stakeholders and the importance of CSER.

**7.5 LIMITATIONS**

The primary limitations of this study are due to its research methodology and scope. Firstly, as is the case with qualitative studies, the findings of this study are limited to its specific context. The nature of this study is to provide a deep understanding of managerial perceptions of the CSER phenomenon in China by emphasising the depth of insight rather than the breadth of generalisation. Therefore, this must be taken into account in judging the applicability of the findings across contexts. In this study, rich and thick description (Geertz 1973) of the research context and design are provided and extensive quotes from interviews are presented which enable other researchers to appraise the applicability of the findings in other cases.

Moreover, the sample selection criteria are another limitation in generalising the findings. All participants in this study were selected from large domestic and/or overseas listed companies, SOEs and MNCs due to their larger social and environmental impact. As company size has been identified as a crucial factor of CSER, the applicability of this study's findings to small and middle-sized companies in China is questionable. In addition, the participants were recruited based on access convenience, although snowball sampling (Atkinson and Flint 2004) was deliberately avoided, and samples were purposefully chosen from companies of different ownership types in various industries. However, the specific experiences, qualifications and management position held by the interviewees included in the sample could have coloured, to a degree, their perceptions. For example, the sample included some managers who were currently undertaking MBA studies. Their perspectives may have been systematically biased by the same ideas they all recently acquired in courses related to CSR. Further, the interviewees included managers who held positions in public relations and CSR departments of their organisation. This could systematically bias their perceptions on the importance of the theme of 'public awareness'.

Lastly, the findings about the managerial perceptions of CSER were drawn based on the responses of the participants in interviews. The participants' real perceptions of CSER could be intentionally or unintentionally clouded by political correctness. The participants were all in senior management positions in their companies. As their opinions about CSER might be perceived to reflect their and their companies' moral

consciousness, the participants might have been inclined to say something positive about their companies and themselves in the prevailing "Mianzi (face 面子)" culture. Although the participants' views were triangulated with publicly available data of their actual CSER practice, the status of CSER in China and the findings of relevant literature, it is still worth noting this concern.

## 7.6 FUTURE RESEARCH DIRECTIONS

Notwithstanding the limitations mentioned above, this study provides some promising avenues for further studies in CSER. Some research directions for the future that emanate from the findings of this study could be as set out in the following paragraphs.

Firstly, as indicated by the findings, the enablers of and barriers to CSER in China are largely associated with the institutional context. It would be interesting to know whether the CSER phenomenon would be conceptually different in other countries, especially how it is driven or hindered by the specific institutional environment, such as the political and legal systems and the social and economic contexts, as well as the cultural influence. Comparative studies on CSER between developing countries and developed countries, or countries with different cultures (e.g. Western culture and Asian culture) could be conducted to explore the institutional factors surrounding CSER. The findings of this study could be used for future international comparative studies with a similar research design.

Secondly, participants in this study perceived that stakeholders, with the exception of the government and regulators, were not aware of or interested in CSER, which is a large disincentive to companies' CSER adoption. To triangulate senior managers' perceptions, future studies could also explore some powerful stakeholders' perceptions of CSER in China (e.g. government officers, stock exchange regulators, institutional shareholders, creditors and large customers). These studies could adopt a mixed mode research method. In addition to sample interviews, questionnaire surveys could be conducted with both companies and stakeholders. A questionnaire study with a larger sample has a better chance of generalisation from its findings. The findings of this study could be used as a reference by researchers to design the questionnaires for companies in China.

Thirdly, as perceived by the participants in this study, in terms of CSER, only companies with controversial issues and negative news in China are under public pressure. Hence, a longitudinal case study focusing on the CSER practice of one or two companies in China is recommended. It would be interesting to compare the disclosure levels before and after the company(ies)' encountering of negative news in the media. Furthermore, researchers could also interview the personnel responsible for CSER and the management in the company(ies) to triangulate the results.

Lastly, there is a need for more engagement-based studies of CSER to connect theoretical perspectives to companies' real practice, which could offer deeper and more meaningful insights into the CSER phenomenon in different contexts. An engagement-based case can be made for conducting participatory action research (PAR), a strategy to advance CSER in practice, involving researchers and key personnel in an organisation.

## 7.7 FINAL REMARKS

Corporate social and environmental reporting (CSER) is particularly meaningful to a developing country like China. From the economic reform in 1978, economic development had been the nation's top priority and central task. Although the Chinese government has expanded the focus to building a harmonious society and promoting sustainable development, the values of the public and of companies in China will not change overnight. CSER could generate a change in companies' behaviour through improving the accountability and transparency of their impacts on society and the environment, thereby, benefiting all members of society in China.

Currently, the public pressure on companies' CSER is perceived to be fairly low in China. Until some form of coercive institutional pressure from relevant stakeholders and the need for heightened legitimacy prevail, it will be a challenging journey before CSER becomes an institutional norm among companies in China.

In addition, a perceived conflict between CSER/CSR and economic performance is a fundamental internal barrier to companies' active engagement in these activities in China. To encourage companies' reporting initiatives, it is essential to change their perception of CSER/CSR from a financial burden to a competitive advantage, and to persuade them to a perspective of CSER that is win-win. Only when companies realise

the importance of CSER/CSR to their long-term success will they incorporate it into their company strategy, and engage in CSER on their own initiative.

Lastly, the researcher and most participants in this study believe that CSER will be an increasing trend in China in the future, with the support of the government's national policy, the growing affluence of the Chinese people and as more Chinese companies enter the global markets.

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# APPENDICES

## Appendix A: Sample Information Sheet and Consent Form


Curtin University

**Information Sheet and Consent Form**

### Exploring the Phenomenon of Corporate Social and Environmental Reporting in China

My Name is Shengli Yu. I am a PhD candidate of Curtin University, Australia and lecturer of Shanghai University, China. I am writing to invite you for an interview for the data collection of my research. The topic of my study is exploring the phenomenon of corporate social and environmental reporting (CSER) in China. CSER is commonly known as corporate social responsibility (CSR) reporting in China. This study aims to explore senior managers' perceptions of CSER in China. In particular, the main research objectives are: (1) Explore the enabling motivations and impediments of CSER adoption in China; (2) Discover effective enablers that most likely encourage the advancement of CSER in China.

Your contribution to this research as senior manager is of significance in understanding the phenomenon of CSER practices in China. Your participation to the interview is voluntary. It may take around forty-five minutes to an hour. You are assured that: (1) You have the right to withdraw from participation at any time without giving any reason; (2) The confidentiality and anonymity of the identity of you and your company will be maintained; (3) The interview will only be taped under your agreement; (4) The interview data will be exclusively used for the purpose of completing my PhD research thesis; (5) All audio files and transcripts will be de-identified and locked at the Curtin Graduate School of Business.

This research has been approved by the Human Research Ethics Committee of Curtin University (Approval number GSB 1-12). If you have any queries pertaining to this research, please do not hesitate to contact me or my two supervisors.

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I, _____ have read the information on page one and all my questions have been answered to my satisfaction.

I agree to participate in this research of my own accord, knowing that I, as an individual, can withdraw at any time without personal consequence. I have been given a copy of this form for my records.

Please circle:

YES / NO

**Appendix B: Interview Protocol**


Curtin University

**Interview Protocol**

<u>Introduction before interview</u>

My name is Shengli Yu, a PhD candidate of Curtin University, Australia. The only purpose of this interview is to collect the data for my PhD study. My research topic is 'Exploring the Phenomenon of Corporate Social and Environmental Reporting (CSER) in China'. This reporting is commonly known as corporate social responsibility (CSR) reporting in China. The main purpose of this interview is to explore enablers of and barriers to CSER in China and ways to advance it from a senior manager's perspective.

Your participation is voluntary. You are assured that your right to withdraw from participation at any time without giving any reason, and the confidentiality and anonymity of you and your company are guaranteed; the interview will only be taped under your agreement.

<u>Guiding semi-structured questions:</u>

1. Has your company issued CSR reports? Why or why not?

2. Do you think it is necessary for companies in China to engage in CSR reporting? Why?

3. What kind of companies in China do you think should issue CSR reports?

4. Who do you think are the main audiences of CSR reporting?

5. What are the enablers for companies in adopting CSR reporting in China on your perception?

6. What are the barriers for companies in adopting CSR reporting in China on your perception?

7. What do you think are the best ways forward to advance CSR reporting in China? What are the detailed solutions?

8. How do you think about the future of CSR reporting in China?

9. Are there other issues you would like to address in relation to CSR reporting in China?

<u>Express thanks:</u>

Thank you for your time and participation.

**Appendix C: Operational Definitions**

**Collectivism**: is a national cultural element that exists as the reverse of individualism. It stands for "societies in which people from birth onward are integrated into strong, cohesive in-groups" (Hofstede, Hofstede, and Minkov 2010, 92).

**Corporate social and environmental reporting (CSER)**: is "the process of communicating the social and environmental effects of organizations' economic actions to particular interest groups within society and to society at large" (Gray, Owen, and Maunders 1987, ix). It is interchangeably known as sustainability reporting; corporate social responsibility (CSR) reporting; corporate responsibility reporting; corporate social reporting; corporate social and environmental accounting; and non-financial reporting. In China, CSER is commonly known as CSR reporting.

**Emic**: is concerned with the description of behaviours or patterns as from an insider's or local's perspective within a culture (Morris et al. 1999; Fetterman 2005). An emic approach is culturally specific, describing a unique value of a particular society at one time (Pike 1967; Brislin 1976).

**Etic**: is concerned with generalisations of behaviours or patterns across cultures (Brislin 1976). An etic approach adopts an external perspective from outside a particular system, and describes phenomena in constructs equally in societies of different cultures (Morris et al. 1999; Pike 1967).

**Guanxi (关系)**: is an important part of Chinese business culture. It has no word-for-word translation to English. Guanxi literally means 'relationship' or 'connections'. It is a network of interconnected individuals which involves implicit reciprocal obligation and exchange of favours, and requires a long-term interaction based on mutually exchanged trust and respect (Seligman 1999; So and Walker 2006; Smith 2012).

**Mianzi (面子)**: literally means 'face' in English. It represents a person's sense of prestige in social contexts and his or her standing in the eyes of others. It is "a quality attributed to someone who meets the essential requirements related to his or her social position. 'To give face' means to show respect for that position" (Hofstede, Hofstede, and Minkov 2010, 517).

**Power distance**: is a dimension of national cultures (from small to large). It is "the extent to which the less powerful members of institutions and organizations within a country expect and accept that power is distributed unequally" (Hofstede, Hofstede, and Minkov 2010, 61)

**Stakeholders**: are "any group or individual who can affect or is affected by the achievement of the organisation's objectives" (Freeman 1984, 46). Examples of primary stakeholders are employees, customers, suppliers, the government and shareholders.