

INSTITUTIONAL CULTURAL NORMS OF CHINESE CORPORATE ENVIRONMENTAL REPORTING

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1. INTRODUCTION

The 2007 United Nations Intergovernmental Panel on Climate Change coupled with Al Gore's (EIU ViewsWire, 2006) statements on global warming and the Stern review (Stern, 2006) have propelled global environmental issues to the foreground (Rowe, 2008). As the most populous nation on earth with one fifth of humanity (The Economist, 2005), China has a prominent role in solving global environmental challenges especially with the recent surge in its need for raw materials to boost its economic growth, (Diener and Rowe, 2007). With this in mind, China's national development strategy for environmental protection has become more focussed since the Sixth National conference on Environmental Protection in 2006 (State Council, 2006).

As an environmental management strategy to communicate with stakeholders, corporate environmental reporting (CER) can command a pivotal role in the 'greening' of corporate accountability (SustainAbility/UNEP, 2002; Group 100, 2003). For instance, CER has been "best described as a tool to spur corporate policies, strategies and management systems geared to minimising adverse environmental impacts" (SustainAbility/UNEP, 1998, p. 5). According to Mathews and Perera (1995) CER in developing nations is generally voluntary and un-audited. In China, CER is still in its infancy and any form of environmental reporting to the public is predominantly non-mandatory (Xiao and Hu, 2004; Guo, 2005; Xiao, 2006; Li et. al., 2008). Thus, for the purpose of this study, CER will refer to the voluntary disclosure of environmental issues of business enterprises to the public.

There is a lack of empirical studies in English on CER in China. The need for this research has never been more pressing, given the pace at which China is utilising global natural resources to satisfy its development (Chan and Welford, 2005; Xiao, 2006). In 2004, "no other country attracts as much foreign direct investment (FDI) as China does... (US)\$60 billion" (The Economist, 2005, p. 9). In 2005, FDI inflows reached (US)\$72 billion record high (UNCTAD, 2007).

The main objective of this paper is to explore the normative assumptions underpinning CER in China focusing on Shanghai. More specifically, this study provides the perceptions of senior Shanghai managers and executives of what Chinese environmental values are, and their perceptions of CER in response to environmental challenges in Shanghai.

In conceptualising CER, the 'greening' metaphor is used to relate to this phenomenon. Gladwin (1993, p. 38) considers greening as meaning many things, but it can be "viewed as a process by which human activity is made compatible with biospheric capacity" and it is "the most important phenomenon of our time as human survival literally depends on

Since public accountability disclosure of what businesses are doing and planning to undertake are crucial for an economy in transition, and as more international investment is channelled into the Chinese market than ever before, research in CER to the public is needed to raise awareness of the quality of reporting in China (Xiao, 1999; Lin and Wang, 2001; Li, 2004). Several studies have found that whilst compliance with mandatory financial disclosures are fairly high (Xiao, 1999), there are distinct differences between Chinese corporate financial reporting and the internationally accepted norms (Xiao, 1999; Tang and Lau, 2000; Lin and Wang, 2001; Ding, 2002).

Indeed, the information disclosed in financial reporting between A shares and B shares also varies. The B share information is more structured than that of the A shares (dominated by local regulations and customs) because B share financial reporting adheres to International Accounting Standards as financial statements are audited by CPA firms with an international practice, and foreign investors also act as external monitors (Abdelkhalik, Wong and Wu, 1999). This situation has been confirmed through personal communications with two public accounting partners in Shanghai – namely, Professor Zhou Zhong Hui (PriceWaterhouseCoopers, 1999) and Professor Tang Yun Wei (Ernst & Young Da Hua, 2005).

Nonetheless, CER is certain to be of increasing interest to China in the future. Recent scandals involving foreign financial markets and the Chinese stock market (e.g., China Aviation Oil in Singapore and China Life in New York) have sparked a rethink of the importance of the quality of CER in China (Guo, 2005). In 2006, for example, the Chinese Council for International Cooperation on Environment and Development (CCICED) released a report on environmental governance recommending “environmental audits and annual public environmental reporting” (Lan, Simonis and Dudek, 2007, p. 297).

3. RESEARCH METHODOLOGY

This section discusses the research methodology in dealing with the emerging greening phenomenon of CER and the complexity of the business world today in China. Understanding the social construction and meaning of CER in China requires ‘emic’ analysis, whereas most accounting and management research in this arena is ‘etic’. Whilst ‘emic’ research describes the unique values of a particular society, ‘etic’ analysis applies to generalised theoretical model across several societies (Brislin, 1976; Marshall, 1998).

Thus, to investigate the emerging phenomenon of CER in Shanghai, a *constructivist* ontology was chosen using a modified grounded research approach (Strauss and Corbin, 1990; 1994; Whiteley, 2004). The *constructivist* paradigm can help senior managers and policy-makers discover what is happening, and *why* organizational actors do what they do (Parker and Roffey, 1997), thereby contributing to an ‘emic’ understanding of CER phenomenon.

effective way of tapping the thoughts of a number of subjects and so examining how they each perceived the reality of CER and the meaning that they construed around the perceived reality. In order to reflect the diversity of companies in Shanghai, the fifteen organisational cases selected for this research were of different types and sizes. Table II depicts the three main types of enterprises and the number of enterprises (cases) from which senior managers were interviewed in Shanghai.

[Take in Table II about here]

Senior managers and executives from fifteen enterprises were interviewed between 2001 and 2005. The fieldwork involved three weeks of preliminary interviews (in Beijing and Shanghai), followed by main interviews (ranging between 45 minutes and 2 hours each), and many hours of informal contact and discussion over the years of the project (2001 – 2005). In 2007, further informal contacts in Shanghai were also made. The interviews were audio taped whenever possible and field notes were immediately documented within 24 hours, so as not to lose the vital nuances and cues observed. The taped interviews were transcribed and rigorously reviewed for errors by both the researcher and Chinese translators. Tapes were carefully listened to following the Strauss and Corbin (1990) framework, and corrections were made. The trustworthiness of transcripts was carefully assessed following Poland's (1995) methods.

The voluminous amount of textual data derived from the transcribed interviews, observations, field notes and documents of the fifteen case-study companies was managed using a software package - NUD*IST Vivo (NVivo). One of the major advantages of using NVivo software was its capability to alleviate the problem of 'drowning in data' by allowing data to be allocated into categories, which provided a more streamline structure for discovering emergent themes.

The researcher was at all times sensitive to the needs of cultivating a trusting environment between the respondents and the investigator. Only the views of the most senior managers/executives of each of the organisations were taken into account for each case (unless contrary views by majority of managers prevailed), while the data gathered from the rest of the managers (within the same enterprise) took on a supportive role. Hence, prolonged engagement added to the rigour and trustworthiness of the data collected in Shanghai (Lincoln and Guba, 1985).

Senior managers and executives were targeted as they were likely to possess 'emic' knowledge (i.e., the interpretations and attributions of meaning of the participants to the research) about the response of their organisation to the greening of management and reporting. The United Nations Educational, Scientific and Cultural Organisation (UNESCO) office in Beijing stated that: "company managers are a key target group of major importance to the environmental situation in China" (Hebel, 2003, forward).

Locating the field research in Shanghai was opportunistic as the researcher has been conducting Master of Business Administration study tours there for a number of years. Moreover, Shanghai is the most economically dynamic city with the greatest level of

For instance, a General Manager (interview #03) states that his: "*company does not disclose its environmental matters publicly in its annual report ... but we have to report to the relevant Shanghai Municipal Environmental Protection Bureau (SMEPB).*" Also, "*depending on the enterprises, I think the SMEPB requires certain minimum environmental reports on how the company is managing its environmental problems*" (interview #04).

It is instructive to note that annual reports are primarily targeted at regulatory government bodies, not necessarily the shareholders, probably a legacy of a centralist communist state in transition to a social market economy. In addition to Format A mandatory environmental reporting to government officials, since 2004, 'dirty companies' as identified by the State Environmental Protection Administration (SEPA) are 'encouraged' to voluntarily disclose Format B environmental reporting publicly on company websites.

The general findings of the study drew attention to the incentives and barriers for voluntary external CER. In understanding CER as perceived by senior managers in Shanghai, several widely used theoretical approaches in the CER literature were considered, including *legitimacy theory* (Guthrie and Parker, 1989; Patten, 1991; Deegan, Rankin and Tobin, 2002) and *stakeholder theory* (Ullmann, 1985; Roberts, 1992; Donaldson and Preston, 1995), and to a lesser degree *political economy theory* (Puxty, 1991). However, as will be discussed in the next sub-section, these findings from the data appear to reverberate well with *institutional theoretical* approach (Deegan, 2002; Rowe, 2002) in understanding the 'embryonic greening' phenomenon of CER in Shanghai.

In explaining 'why' organisations voluntarily report publicly on environmental management, *legitimacy theory* and *stakeholder theory* tend to complement each other as both take into consideration how organisational behaviours respond to demands of divergent interest groups, and act to legitimise their actions (Guthrie and Parker, 1989; Patten, 1992). Understanding motivation for disclosure has been attracting considerable research attention, and the desire to legitimise an organisation's operations in managing stakeholder demand has been one of the many possible incentives (e.g., Guthrie and Parker, 1990; Gray, Kouhy and Lavers, 1995; Deegan, 2002; O'Donovan, 2002).

The following quotations from some of the interviewees illustrate the incentives and drivers for CER to the public that 'legitimise' the business operations (i.e., legitimacy theory) by conveying a symbolic message (i.e., institutional theory) and management of stakeholders:

// extremely sensitive to media coverage // public pressure and image //...it's our reputation // to portray yourself as a very responsible corporate citizen // community acceptance // industry need to have an image with the public that we are responsible in our ways of dealing with the environment //

In this in-depth study 40% of the 15 companies identified the following major incentives for CER: reputation, competitive edge, public needs to know, corporate citizenship,

Nonetheless, there are some noteworthy studies that have attempted to identify the barriers for CER (e.g., Gray, Bebbington and Walters, 1993; WICE, 1994; SustainAbility/UNEP, 1998; Synnestvedt, 2001; Martin and Hadley, 2008). These studies present compelling reasons that are not particularly dissimilar to those provided either explicitly or implicitly by the respondents from the in-depth field research in Shanghai (see, Figure1).

[Take in Figure 1 about here]

As can be discerned from extracts of participants' reflections reproduced below and as illustrated in Figure 1, the perceived main reasons inhibiting CER in Shanghai were: the absence of legal requirements; lack of stakeholder demand; competitors not reporting; not perceived as environmentally exposed; sceptical about advantages to enterprises; costs; not part of executive performance measures; and secrecy. Fifty-three percent of companies interviewed provided reasons for not reporting on corporate environmental issues, which included the following:

//...not normal practice to report to everyone about environment // only report if required by law // we have not thought about it // environmental protection programs most costly // report if shareholders are interested in environmental disclosure // I am not being assessed for good environmental practices...it will reduce our profit margin // ...company is not public...so we are not required to disclose // it is expensive and takes time to set up an environmental system // I think we don't have any environmental pollutions // shareholders are more interested in financial bottom line // this report is too confidential, I can only let you read it // management reports only, not for anyone in the public // no demand for it // not operating in a risky business // for internal management use only // we don't want our competitors to get hold of the information // waste of time and resources // If our major competitors are publicly reporting on environmental protection and other environmental practices, then we may think about following...//

Drawing on theoretical sensitivity (Glaser, 1978) grounded in the data, *institutional theory* appears to be a plausible explanation for the resistance to external CER in Shanghai. The findings compel the inquirer of this study to explore a tentative theoretical conceptual model in an attempt to understand this phenomenon in Shanghai, given the paucity in established theoretical concepts in the literature, capable of offering an insight into the non-reporting of corporate environmental issues.

Institutionalization is a process of social construction by which individuals come to accept a shared definition of social reality that includes "the way things are," "what is important" and "the way things are done" (Scott, 1987, p. 496). The institutions determine how business leaders act in accordance with the rules set out, while individuals devise strategies to survive or win in society (North, 1992).

In situations of moderate diffusion, it is not uncommon for companies to compromise on the level of conformity or attempt avoidance tactics, such as adopting ceremonial conformity or lip service to environmental pressures (Oliver, 1991). Such a 'low level' symbolic gesture "implies that minimal as opposed to detailed environmental disclosures may be more likely to form part of a legitimacy process aimed at appeasing the concerns of less powerful 'relevant' stakeholders such as environmentalists and NGOs" (O'Dwyer, 2003, p. 98). Such appeared to be the case, at least to a limited extent in Shanghai.

For instance, a General Manager (interview #03) contended in an interview that tree planting along the Suzhou Creek was an indication of superficial conformity to environmental pressures. This ceremonial greening of Suzhou only scraped the surface of the deep rooted environmental disaster of land and water contamination through decades of toxic effluence being discharged by small "dirty" factories.

However, in all fairness to the SMEPB, since the commencement of this study in 2001, the researcher's annual visits to Shanghai and Suzhou, visual observation and anecdotal communications with environmental consultants there appear to suggest that the environmental condition of Suzhou Creek is indeed improving. In addition, the Asian Development Bank loan of US\$300 million has helped in cleaning up the heavily polluted Suzhou Creek (China Economic Review, 2005).

Jennings and Zandbergen (1995) have noted that the demarcation is blurred in determining when the need to conform to industry standards between normative isomorphism (in order to survive) starts, and when belief in competitive advantage (which drive mimicry) ends. The isomorphic trend towards green strategic change, which generally derives from a particular visible industry (e.g., utilities, petrochemical, mining and transport) permeating initially among the competitors, is a type of normative conformity and mimicry. DuPont, for instance, one of the world's leaders in industrial and occupational safety, has been known to develop cutting edge innovative environmental practices, which others, including its competitors, emulate and benchmark. This situation is reflected in the remarks of executives from similar transnational organisations interviewed in Shanghai.

This appears to be a non-choice behaviour since, in extreme cases, gaining legitimacy to remain in business may depend on the organisation's ability to conform to higher environmental standards put into practice by these innovative leaders. 'New institutionalism' highlights ways in which external norms and regulations are reflected in organizational practices (Power, 1991; Selznick, 1996).

On the other hand, the findings suggest that the Chinese government's enforcement of compliance to environmental protection regulations appears to be spatial and ineffective. Hence, organisations in Shanghai were not deterred by the sanctions for non-compliance behaviour. For that reason, leading edge CER practice by corporate leaders will not be swiftly imitated or embraced. Thus, for organisations in emerging nations such as China, the institutional norm in environmental protection among most corporations is to adopt the "business as usual" scenario.

The embedded conceptual theme of Chinese cultural norms (informal institutional rules) – that is, “the Chinese way things are done” was seen from the manner in which respondents constructed categories of meaning around *Guanxi*, trust and secrecy. In Chinese cultural norms, the unspoken words sometime held more credence through inferences and unwritten codes of conduct. For instance, the obliging action of a busy respondent (interview #01) probably spoke louder than words, if his actions and comments were anything to go by. The director said that: “*I do not usually give interviews like this except, ah, that my business associate requested that I assist you with your research in China. I have postponed my trip to Beijing today because I wish to honour her request.*”

During the field study, *Guanxi* (or the ‘silken thread that holds humanity together’) manifested itself in different ways, though not blatantly obvious to the researcher initially until further reflection, as these gestures were not consciously captured by spoken transcribed words and field notes written about observations. Such an unspoken communication reflecting hidden meanings beyond words of the text, must be viewed in context for true decoding to take place (Kets de Vries and Miller, 1987). According to Church (1999, p. 8), the theoretical principles behind the attribution of Chinese ‘hidden meanings’ or ‘communication without words’ derives partly from the hermeneutical tradition of Confucius’ judgments on historical events and the belief that the sage hid such meanings in the text.

In examining the emerging CER phenomenon of enterprises in Shanghai, it soon became apparent to the researcher that “*it is very important to understand the culture of China*” (interview #22), that is, the significance of taking into account, the Chinese way of doing business, their philosophies, customs and their perceptions of law, justice and dispute resolution. The hidden meanings of participants’ nonverbal communication (through their nuances and actions) illuminated the implied underlying relevance of the Chinese cultural norms. This is notwithstanding the fact that only 27% of companies who participated explicitly mentioned the importance of *Guanxi* and secrecy in the interviews. These salient characteristics resonate well with a culture that has its origins emanating from centuries of traditional influences, including Confucianism, Daoism and Legalism.

Confucian family values of leaving the best for their children have been known to play a role in protecting the environment. “Parents have the responsibility to hand down a cleaner and less polluted environment to their children, and environmental protection becomes a means to protect their children” (Hsiao et al., 1999, p. 216). Polluting enterprises have been condemned for threatening descendents of the community.

The long embedded laws of nature in Daoism’s philosophy provide a metaphysical basis for environmentalism. Some of Laozi’s (the founder of Daoism) proverbs possess ‘greening’ connotations. For instance, according to Ip (1986, p. 101), Laozi’s famous saying “a tower of nine storeys begins with a heap of earth. The journey of one thousand li (miles) starts from where one stands,” has been interpreted as meaning “things simply work in accordance with the law of nature. Anyone who tries to do things in violation of the laws of nature is doomed to failure.”

These social connections can be regarded as cultivating relationships with EPB (Environmental Protection Bureau) officials (Jahiel, 1997; Ma and Ortolano, 2000) or as providing 'grease for the wheels' (Seligman, 1999) or lubricant to reduce transaction costs (Williamson, 1985) in compensation for lack of formal institutional support such as unequivocal law and regulations (Xin and Pearce, 1996; Peng and Luo, 2000).

Particularly in a nation like China, trust (*Xinren/Xinyong*) and commitment are secured by preservation of 'face' (*mianzi*) and the unspoken rules of reciprocity (*renqing*) (Luo, 1997; Luo, 2000; Ma and Ortolano, 2000). The three main bases for developing trust between business partners as identified by Zucker (1986) are: reputation for reliability; common ascriptive characteristics (e.g., ethnicity, family); and social institutions (e.g., professional certification of competence and code of ethics or schoolmates). The Chinese concept of personal trust (*Xinyong*) relates to the integrity, credibility, trustworthiness, or reputation and character of a person (Tong and Yong, 1998). A person perceived by others as possessing *Xinyong*, will enjoy 'favorable ethical judgment' (Leung, 2004, p 62). The following extracts from some of the senior managers/executives exemplify the importance of trust:

// Honesty...let them trust you and they will come and help // I think that at first you shall get the trust from the customer // earn Chinese governments' trust //

The essential roles of *Guanxi* and trust manifest themselves in the sound relationship between the SMEPB and the case company in interview #13 (emphasis added) who assert that "*the projects we are doing have very select relationship with the environment for protection, but to save the waste water treatment, definitely.*" Hence, the relevance of "*long-term business plans that include...profit growth, good relationship with the governments to earn Chinese governments' trust and understand the Chinese culture of building a long history of trust*" (interview #22, emphasis added).

Permeating from this *Guanxi* and trust cultural theme of localized 'emic' value is the Confucian collective value of keeping business information within the family or an ascribed group within the network. The next section elaborates on the secrecy concept of the cultural theme that surfaced from the data.

5.2 Secrecy

The discovery that secrecy and resistance to reporting sensitive information on environmental issues in Shanghai resonates well with several authors in CER studies (e.g., Gray, Owen and Maunders, 1988; Perera and Mathews, 1990; DTTI/IISD/Sustainability, 1993; Gray, Bebbington and Walters, 1993; Ball and Bell, 1995; Solomon and Lewis, 2002).

It is undeniable in practice that secrecy relating to environmental pollution within industry has been substantial and has also been prevalent to environmental legislation (Ball and Bell, 1995). Historically, secrecy has been endemic in environmental reporting.

group most closely involved with the enterprise's management as Chinese people have a strong sense of collectivism belonging to a group (Chow et. al., 1995).

Simmel (1964, p. 330), the pioneer of Western sociology of secrecy, regards the role of secrecy in social life as, "the hiding of realities by negative and positive means, one of man's greatest achievements ... The secret offers, so to speak, the possibility of a second world alongside the manifest world." The psychological importance of the guarded knowledge is enhanced by the fact that outsiders (those not within the family, pseudo-kinship, organisation or profession) are excluded from sharing the knowledge concealed but selectively disclosed through special relationship (McDougall and Hansson, 2002). This is akin to the *Guanxi* concept of relationship building that tends to guard knowledge and information (secrecy) within an ascribed collective group, possibly "*for internal management use only, not available to the public*" (interview #05).

6. CONCLUSION

As can be gleaned from this in-depth field study, CER activities in Shanghai are still at the embryonic stage of progress as indicated in the literature. The findings appear to imply that whilst the formal institutional rules are in place for CER to the government (especially for the more environmentally exposed enterprises), voluntary CER to the public has yet to attain institutional norm. Weak enforcement of environmental protection laws does not encourage the isomorphic institutional diffusion of CER. Therefore, according to institutional isomorphism (DiMaggio and Powell, 1983; Hoffman, 2001), the less prevalent the practice of CER in China, the greater the tendency for organisations to resist such a greening business activity. This is compounded by the informal institutional cultural norms that impact on CER.

Understanding of the cultural norms (informal institutional rules) have enhanced our understanding of the normative assumptions underpinning CER in China, as perceived by senior managers and executives in Shanghai. The emergent theme as articulated by the participants in the Chinese context indicates that CER in Shanghai is influenced by informal institutional cultural norms (i.e., *Guanxi, trust and secrecy*). This embedded informal norms of CER resonates well with Scott's (1995) 'cultural/cognitive institutions' and the taken for granted informal rules/norms (Scott, 1995; Meyer and Rowan, 1977; Zucker, 1983). *Guanxi* business relationship building and trust cultivated by senior managers are a catalyst for the tendency to guard knowledge and information (secrecy) of environmental issues within an ascribed trusted collective group. Guarded knowledge, valued as esoteric or honourable secrets, has to be disclosed, transmitted and made known, but not to be revealed to all.

The implication of this is that those seeking to impose compliance to international environmental standards and norms, particularly those incorporated in CER, may need to embrace the paradox of rules both as generalized as well as contextual entities. It would appear from this qualitative study that institutional rules go through a cultural lens before reaching individuals who have to implement them.

APPENDIX

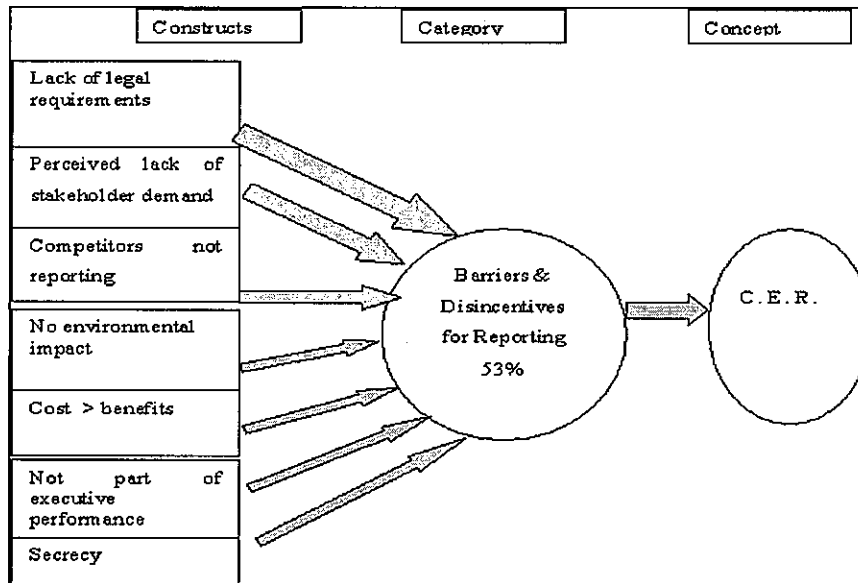
Table I: Research Strategies

Nature of Decisions	Chosen Research Strategy
Location/object of research (Boundary of phenomenon)	Multi-Case study; and Grounded Approach
Nature of researcher (Observer, actor or 'other')	Interactionist sometimes observer, and sometimes participant in discovery
Nature of theory in study (Emergent and inductive or validation and deductive)	Emergent (inductive) not validation (deductive), exploratory, no a priori 'facts'.

Table II: Types of Case study Enterprises Interviewed

Types of Enterprises	No. of Enterprises
Chinese Private and State-owned Enterprises	7
Joint-venture	1
Multinational Enterprises	7
Total cases	15

Figure 1: Barriers for CER



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