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## Corporate social responsibility reporting in China: Political, social, and corporate influences

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## Abstract

This paper explores the main drivers of CSR and its reporting for large Chinese listed companies, and identifies the key institutional pressures and stakeholder influences that shape CSR and its reporting. The data were collected through interviews with managers from large listed Chinese companies. Our findings reveal how the Chinese government uses social organisations and social intermediaries to facilitate and mediate CSR and its reporting to meet changing societal expectations across regions, while ensuring that companies remain responsive to the expectations of international stakeholders. We find that CSR and its reporting help companies gain political legitimacy domestically, while retaining their legitimacy in global markets. Companies co-operate with social organisations and social intermediaries actively and continuously. This helped companies secure political legitimacy with the government, while helping officials maintain their social legitimacy. Our findings on regional differences support the idea that relations between Chinese business and society have a fundamental effect on CSR and its reporting.

**Keywords:** Authoritarian CSR, CSR reporting, China, Institutional theory

### 1. Introduction

The Western concept of corporate social responsibility (CSR) was introduced to the People's Republic of China (hereafter, China) around the late 1990s, and, since the mid-2000s, CSR reporting has rapidly developed into a prevalent corporate practice (Yang, Craig & Farley, 2015; Hofman, Moon & Wu, 2017; Li & Belal, 2018), pioneered by listed firms and state-owned enterprises (SOEs) (Yang et al., 2015; Hofman et al., 2017; Li & Belal, 2018). Currently, China continues to engage in the global market, while embracing a capitalist market economy, the legacy of a centrally planned economy, a communist ideology, and Confucian values (Chow, Chau & Gray, 1995; Yang et al., 2015; Li & Belal, 2018). As such, compared with other countries, China has distinct socio-economic, education and labour, financial, and political and cultural systems that have shaped the development of CSR and its reporting (Moon & Shen, 2010; Kolk & Tsang, 2017). In this paper, we address the following research question: What are the key institutional pressures and stakeholder influences, both globally and nationally, that drive CSR and its reporting in China?

Matten and Moon (2008) identify a number of institutional pre-requisites for CSR, including a functioning market, a civil society, and a democratic state with functioning governmental and legal institutions that oversee market operations, while acting on behalf of society in the event of a market failure. However, whether these pre-requisites are present in the unique context of China, described as 'authoritarian capitalism', is debatable, as are the implications for CSR and its reporting. To help achieve its ultimate goal of a harmonious society and harmonious world,<sup>1</sup> the state propagated CSR and used its resources (mainly its various organs, see Zhao & Patten, 2016) to ensure companies were more responsible, nationally and internationally (Wang & Jusline, 2009). In this process, while CSR may function nationally, it may encounter challenges internationally. For example, Wettstein (2012) found that with increasing attention being paid to poor labour practices and human rights in global supply chains, responsibility to the workforce is a core aspect that Chinese companies can no longer ignore. In addition, Islam, Deegan and Gray (2018) highlight how powerful independent non-governmental organisations (NGOs), civil society organisations, and social and news media can be in monitoring and exposing failures in supply chains. In this paper, we demonstrate how Chinese companies are facing a confluence of global and domestic influences on their operations, all of which are affecting their decisions on whether or not to engage in CSR and its reporting.

We address our research question through 27 in-depth interviews with Chinese managers and employee representatives of eleven large listed companies located in six regions. We conducted our interviews between 2011 and 2012, three to four years after the introduction of mandatory CSR disclosure in 2008 (Chen, Hung & Wang, 2018). As such, our findings offer valuable insights into how CSR and its reporting developed in an institutional environment known for its socio-political stability (Li & Shaw, 2013). We explain our empirical data using the framework of Matten and Moon (2008), based on institutional theory, later re-visited by Hofman et al. (2017). For their analysis of CSR practices in different countries, Matten and Moon (2008) provide a theoretical framework that uses debates on neo-institutionalism (DiMaggio & Powell, 1983) to explore different forms of CSR, namely, implicit and explicit CSR. Explicit CSR refers to voluntary corporate practices (e.g. corporate donations, codes of conduct, and CSR policies). Implicit CSR refers to mandatory practices that reflect the wider socio-political arrangements and policies of the business environment in which companies operate. For explicit CSR, the government regulates the economy and capitalism, and companies are encouraged to engage in CSR voluntarily to meet the needs and expectations of their stakeholders. Implicit CSR emerges from the tripartite relationship between the government, employees, and civil society (Hofman et al., 2017, p. 657). According to Matten and Moon's (2008) framework, a country's national business system (NBS) contextualises its institutional approach to CSR and defines what CSR means to organisations (Dentchev, Haezendonck & van Balen, 2017). Hofman et al. (2017) extend this framework by concentrating on four features of the Chinese NBS, highlighting those aspects that are unique to China in each feature. For example, they explain how the Chinese NBS is the foundation of Chinese capitalism, whereby the state acts as the authoritarian capitalist and leads the CSR agenda. However, the extant literature offers little evidence on the complexities and nuances of the drivers of CSR and its reporting across regions from the perspective of executive managers of large listed companies.

This study contributes to the literature in three ways. First, we contribute to an emerging stream of very limited Chinese CSR research by showing how CSR and its reporting are shaped for large Chinese listed companies in six regions. In doing so, we complement previous research that uses secondary data based on quantitative analyses (Yang et al., 2015; Chen, et al., 2018) by undertaking a qualitative, interview-based approach to capture the complexities and nuances of China's unique context. Prior interview-based studies on CSR and its reporting in China (Yin & Zhang, 2012; Zhao & Patten, 2016; Li & Belal, 2018) have tended to focus on either one company or on companies located in one region. Our selected companies are located in six regions, from the industrial north to the more globalised south-central. One of China's unique characteristics is that the regions' policies and regulations are devised by local governments to cater for specific local needs. As such, the extent to which the central government's policies are disseminated and enforced in each region tends to vary, depending on the local governments' own development strategies (Child, Lu & Tsai, 2007; Wang, Wijen & Heugens, 2018). Thus, local governments have the power<sup>2</sup> to allocate resources for their own regional development (Marquis & Qian, 2014; Luo, Wang & Zhang, 2017), and can even deviate from the central government's policies in order to satisfy local needs (Child et al., 2007). This ties in closely with our second contribution related to the varying degree of global exposure in different regions. We find that in regions with greater global exposure, CSR and its reporting were subject to a broader range of stakeholder influences and, hence, were more sophisticated. These stakeholder influences did not only emanate from global markets but were also from domestic markets where societal expectations were often high, resulting in a more active presence of social organisations<sup>3</sup> and social intermediaries. The latter point leads to our third contribution, where we find that social organisations and social intermediaries,<sup>4</sup> such as national media (national newspapers, national news agencies), professional institutes, or various Chambers of Business and Commerce, act as intermediaries between companies and societal expectations. This allows companies to respond within the acceptable remits set by the government. Given that social organisations and social intermediaries operate in line with the government's political

ideology and the advocacy of a harmonious society/world (Hildebrandt, 2013), we find evidence that working closely with such groups is an integral part of corporate culture for large Chinese listed companies. As such, companies are familiar with responding to requests from these entities and providing them with information on their CSR and its reporting. At the same time, companies seek the views of such organisations on their CSR, thus ensuring that their CSR and its reporting reflect both local communities' expectations and the accepted norms and values of the local government. Nonetheless, the importance that companies attach to such organisations varies across regions and, hence, so does their significance in driving CSR and its reporting.

In the next section, we review relevant prior research. In section 3, we develop our theoretical framework. Section 4 describes our research approach, and section 5 presents and discusses our findings. Section 6 concludes the paper.

## **2. CSR and its reporting in China**

The extant literature on Chinese CSR and its reporting<sup>5</sup> has identified a diverse range of global institutional forces, local contextual dynamics, and organisational internal factors that have determined or influenced the implementation of CSR and its reporting by Chinese organisations.

In general, previous research shows that Chinese corporations, particularly multinational corporations (MNCs), were compelled to adopt CSR practices by global isomorphic forces emanating from global CSR associations, Western host countries, and their internationalisation processes, as well as the multinational experience of top management (Miska, Witt & Stahl, 2016; Yin, 2017; Zuo, Schwartz & Wu, 2017; Li & Belal, 2018). In particular, the government's influence on organisational behaviour towards CSR has been highlighted (Dentchev et al., 2017; Wang, Wijen & Heugens, 2018). Emphasising the predominant power of the government, led by the Chinese Communist Party (hereafter, CCP or the Party), the unique collectivist nature of Chinese culture (Chow et al., 1995), and their top-down approach to CSR (Child et al., 2007; Wang et al., 2018), previous studies explain how CSR and its reporting began as an organisational strategy to satisfy the advocacy, expectations, and preferences of the Chinese government. For instance, Situ and Tilt (2012) and Marquis and Qian (2014) assert that political legitimacy<sup>6</sup> is crucial for any organisation (e.g. SOEs, private firms, and MNCs) that operates in China, specifically emphasising the significance of remaining responsive to governmental signals and expectations included in official documents, such as the blueprint of the five-year national development plan (Zhao & Patten, 2016). One visible activity was to produce CSR reports, incorporating issues featured in the government's political discourses and official announcements and publications, such as energy saving and emission reductions (Situ & Tilt, 2012) and promoting a harmonious society and sustainable development perspectives (Marquis & Qian, 2014; Zhao & Patten, 2016; Li & Belal, 2018).

Additionally, Chinese companies with international stakeholders are exposed to the scrutiny of international media, because MNCs tend to respond to adverse media attention to their supply chains in developing countries (or transitional economies) by raising their level of CSR-related disclosures (Islam & Deegan, 2010). As such, (international) NGOs, who can bring social and environmental-related issues to the media's attention, are regarded as potential allies who can exert pressure on MNCs for poor working conditions and breaches of human rights in their supply chains (Islam & Deegan, 2010). Furthermore, Lee, Walker and Zeng (2017) identified the drivers of CSR reporting in Chinese corporations as a function of state subsidies, an essential financial source enabling many corporations to survive and grow. In the same vein, Luo et al. (2017) argued that securing the necessary financial/political resources from the relevant authorities depends on how companies report CSR, which, in turn, depends on their locations and how the regional government

prioritises GDP growth or green growth. Similarly, Marquis and Qian (2014) found that in prosperous regions of China, companies report more extensively on their CSR.

Interestingly, the dual role of the media and its interplay with civil society activism play a part in advancing the CSR agenda in China (Marquis & Bird, 2018). Although Hofman et al. (2017) point out that there is a more state-controlled form of civil society in China, Marquis and Bird (2018) argue that under ‘responsive’ authoritarianism, ‘the government can deploy the media so that it simultaneously serves as a catalyst for change and a tool for sustaining the existing system’ (p. 17). Situ, Tilt and Seet (2018) indicate that the government influences whether or not companies initiate environmental reporting, without affecting the quality of such reports. They note that due to the absence of public pressure and the perception of the government’s level of control, companies are more likely to treat reporting as a tool to illustrate their responsiveness to official signals, thus securing political legitimacy and mobilising scarce official resources.

Researchers have also engaged with organisational members to conduct detailed empirical examinations of the implications of local institutional factors for CSR initiatives in China. For example, Yin and Zhang (2012) interviewed managers from textile and pharmaceutical firms in Zhejiang province, where the economy is underpinned by export-oriented small and medium-sized enterprises. They argue that managers make sense of the concept of CSR in association with Confucian cultural tradition, which defines social norms dictating the legitimate behaviours of individuals (merchants) and business organisations in China. Therefore, an implementation of CSR activities depends on managers’ morals, beliefs, and values, and is driven primarily by the ‘enlightened entrepreneurship exercised by managers’ (Yin & Zhang, 2012, p. 312). More recently, Chen, Hung and Wang (2018) found evidence that social and political factors (rather than economic considerations) are the main drivers of CSR spending in Chinese companies. Focusing on listed (nonfinancial) companies required to report on CSR, Chen et al. (2018) found that mandatory disclosure changes firms’ behaviours and, while it reduces their profitability, it generates positive externalities<sup>7</sup> to society (at the expense of shareholders). In addition, the requirements of international customers and the government’s advocacy of ‘a harmonious society’, which resonates with elements of Confucian values, have influenced the adoption of CSR by companies attempting to maintain their legitimacy, competitive advantage, and business-as-usual status (Yin & Zhang, 2012, p. 313). A follow-up study by Yin (2017) suggests that it is the confluence of organisational internal dynamics (e.g. ethical corporate culture and top management commitment) and external institutional factors (e.g. global pressures, political embeddedness, and normative social forces) that drives companies to perform socially responsible practices related to employees, consumers, and communities.

Nevertheless, other literature suggests somewhat different perspectives on Chinese CSR reporting. Zhao and Patten (2016) found that companies became subject to a diverse set of institutional forces (e.g. regulatory pressures imposed by the European Union’s Eco-Management and Audit Scheme and the Shanghai and Shenzhen Stock Exchanges), normative pressures from the United Nations Global Compact, and cognitive pressures from the worldwide adoption of the sustainability reporting guidelines released by the Global Reporting Initiative. Zhao and Patten (2016) argue that the government acts as a mediator, rather than playing a coercive role in initiating CSR reporting. Pressure from global and local peers seems to play a salient role in pushing organisations to engage in CSR reporting (Zhao & Patten, 2016; Marquis, Yin & Yang, 2017). In addition, Marquis et al. (2017) conducted case studies on two Chinese SOEs, finding that the government plays a mediating role in guiding globalised CSR reporting by Chinese corporations seeking to expand their global influence. They argue that CSR reporting in China represents ‘a joint outcome of stakeholder dependency, power and intentional strategic adaptation’ (Marquis et al., 2017, p. 185). Situ et al. (2018) pointed out that while the government is a driving force in initiating environmental reporting, its

direct influence on Chinese companies is rather limited. In the absence of social activism, they found no evidence of normative pressures in the domestic market. Instead, they observed that Chinese companies that sought to enter global markets or endeavoured to gain access to international financial resources faced international normative pressures for their environmental reports. Similarly, Li and Belal (2018) argued that a mutually dependent relationship exists between the Chinese central government, whose ambition it is to see that CSR reporting prevails, and leading SOEs, who actively experiment with novel CSR reporting practices by learning from their international peers. SOEs offer the benefit of first-hand experience to the government in terms of formulating further regulations and guidelines for CSR in other sectors. In other words, the government tends to co-operate with leading SOEs in order to create effective ‘internationalization tools and localized standards’ to enable other organisations to adopt common practices for CSR and its reporting (Marquis et al., 2017, p. 167).

In summary, although previous studies have examined the influence of local contextual dynamics on the interpretation of CSR concepts and their implementation in individual organisations, few provide an overview of CSR and its reporting across the country in its different regions and whether regional differences affect CSR and its reporting. As noted in this section, most existing studies analyse corporate reports, although they are increasingly gathering evidence through interviews with managers from companies operating in one region (e.g. Beijing or eastern coastal areas) or one sector. Given the socio-economic diversity of China’s autonomous regions, it is important to explore how companies employ CSR and its reporting in each region to maintain their political legitimacy and their legitimacy in global markets (when relevant), while helping their regional government retain its social legitimacy.

### **3. Theoretical background**

In the face of uncertainty, organisations need to behave in a homogeneous manner and conform to rules, norms, and social expectations in order to gain legitimacy<sup>8</sup> (DiMaggio & Powell, 1983). Homogeneity is achieved through isomorphic processes (i.e. coercive, normative, and mimetic) in the regulative, normative, and cultural-cognitive pillars of institutional environments (Scott, 2014). Specifically, imposing coercive forces in the regulative pillar (i.e. regulations, formal rules, and legal requirements) aims to control and constrain organisational behaviours by imposing sanctions and other penalties for non-compliance. The normative pillar, relating to normative systems, sets values and norms (Scott, 2014) via a process of professionalisation (DiMaggio & Powell, 1983). Normative value systems are diffused through education systems and membership of various (professional, business, or political) associations. The cultural-cognitive pillar, representing cognitive beliefs (Schuman, 1995) and shared meanings in a broader social context (Zucker, 1983), leads to the construction of a common framework of meanings embodied in social routines and industrial cultures. When faced with uncertainty, organisations imitate the actions of their successful and/or powerful peers (e.g. leading international organisations) through mimetic processes.

Matten and Moon (2008) developed a framework for CSR based on neo-institutional theory, mainly from American and European perspectives. From an American perspective, where governmental intervention is limited, companies engage in CSR in response to what they perceive to be their corporate social responsibility, rather than as a response to ‘... governmental authority or broader formal or informal institutions’ (Matten & Moon, 2008, p. 409). This is known as explicit CSR. Matten and Moon stressed that explicit CSR occurs at the discretion of companies, and is not a reflection of governmental authority or broader formal or informal institutions. Depending on what companies choose, explicit CSR may form in response to stakeholder pressure or may involve governmental or non-governmental organisations or even alliances with other organisations (Matten & Moon, 2008). In contrast, implicit CSR in Europe is not voluntary, and has been mandated ‘... as a reaction to, or reflection of, a corporation’s institutional environment’ and in compliance ‘... with the law and customary ethics’ (Matten & Moon, 2008, p. 410).

Implicit CSR is grounded in ‘... public ownership, ... long-term employment, and co-ordination and control systems based on long-term partnerships rather than markets’ (Matten & Moon, 2008, p. 417). Matten and Moon (2008) adopt the view that national institutions contextualize their own approaches to CSR; thus, in any NBS, the power of the state plays a key part in shaping CSR.

Matten and Moon (2008) also explored the potential of their framework for other parts of the world, including ‘government-dominated transitional countries’, such as China. Hofman et al. (2017) extended Matten and Moon's (2008) framework to consider the recent emergence of a new form of CSR in China. They argued that it is the institutional context of a nation state that moulds its CSR practices and helps organisations make sense of these practices (Situ et al., 2018). Hence, it is the NBS that specifies the characteristics of capitalism in each country and, thus, shapes their CSR and its reporting. Focusing on China's NBS and the increasing involvement of Chinese companies in international organisational fields, Hofman et al. focused on four features of the Chinese NBS to explain why the Chinese case is unique. First, China's political system is characterised as an authoritarian state, whereby the CCP is the only party allowed to operate. The state promotes ‘authoritarian capitalism’, a form of state capitalism unique to China in which the state has total control of capitalism, and hence the economy<sup>9</sup> (Li, 2011). As such, the state intervenes by mandating rules and guidelines, and facilitates and mediates the economic and social behaviours of firms in order to delineate business roles and responsibilities (Marquis & Qian, 2014). The second feature relates to the financial system, which relies on a number of state-owned banks that provide financial resources (mainly) to state-owned companies.<sup>10</sup> With the two stock exchanges providing limited financial resources, and the state banks acting as the main providers of finance, the state effectively controls the whole financial system (Allen, Qian, Zhang, & Zhao, 2012; Jiang, Jiang & Kim, 2017). Hence, there is very little pressure from investors, raising concerns over CSR-related issues (Cumming, Hou & Lee, 2016). Education and labour systems form the third feature. With only one officially recognised trade union,<sup>11</sup> there is little independent labour representation, implying that employees and their representatives are not likely to raise meaningful concerns over CSR issues. At the same time, the education system, in line with the cultural system, promotes respect of and obedience to the authorities, leaving little if any encouragement for evaluative and critical thinking that would help individuals raise concerns over CSR issues. The collectivist nature of the Chinese cultural system (Chow et al., 1995), the fourth feature, with its deep roots in ancient philosophies (i.e. Confucianism, Taoism, and Buddhism), centres around the notion of harmony, whereby individuals are expected to make personal sacrifices for the good of society, as well as respect and obey authorities and hierarchies (Farh, Early & Lin, 1997). In return, authorities look after individuals (i.e. paternalism) (Ten Brink, 2019). It is because of its cultural value systems that the spirit of Chinese capitalism is described as Confucianism, providing it with suitable grounding for a top-down approach to CSR (Child et al., 2007; Wang et al., 2018).

In a system in which major companies are strongly influenced by the state and the Party<sup>12</sup> (Hofman et al., 2017), CSR has witnessed significant transformations. For example, Chinese companies are now the sixth largest national group of signatories of the United Nations Global Compact, and Chinese delegates played an active role in creating the International Standards Organization (ISO) 26000 CSR standard (Hofman et al., 2017). We could argue that these transformations are evidenced from China's significant involvement in the adoption of the UN Global Compact, their role in the development of CSR standard ISO 26000, and development of some industry sector guidance on CSR (e.g. the Chinese Due Diligence Guidelines for Responsible Mineral Supply Chains issued by The China Chamber of Commerce of Metals, Minerals and Chemicals Importers & Exporters, CCCMC). The lack of compatibility with Matten and Moon's (2008) framework led Hofman et al. (2017) to coin the term ‘state-led society-driven’ to describe Chinese authoritarian CSR:

...twin CSR social dynamics: international societal expectations of business responsibility in China and Chinese societal expectations of business responsibility. Both of these dynamics continue to be mediated by the state and party, and both involve elements of business responsiveness. This combination is in keeping with wider insights into party–state and firm responses to civil society pressure. (p.662)

Having recognised that Chinese capitalism continues to evolve under state leadership (Lin, 2011), and that Chinese companies' major decisions are largely led by the state (Whelan & Muthuri, 2017), we need to adopt a framework that captures the uniqueness of such a system, while highlighting and explaining its ubiquitous elements. This will provide a better understanding of how companies decide on CSR and its reporting in such a system in a country with diverse autonomous regions. We believe the model of Hofman et al. (2017) provides such a framework, and so will help us explain the complexities and nuances of the key institutional pressures and stakeholder influences, both globally and nationally, that drive CSR and its reporting in China. In order to explore the main drivers of CSR and its reporting, interviews are considered the most appropriate form of data collection and analysis. They allow researchers to gather insights from organisational participants, including how their views are formed, on why CSR and its reporting are practiced as they are in a given context (Belal & Owen, 2007; Adams & Larrinaga, 2019). The next section outlines our methodology, data collection, and analysis methods.

#### **4. Methodology and Research Methods**

We adopt an interpretivist approach to capture the influences leading to the adoption of CSR and its reporting from the perspectives of corporate managers, allowing any unexpected observations to be recorded (Bryman, 2012). Interpretivists assume that the social world is constructed from the subjective meanings assigned to it by individual actors (Blumberg, Cooper & Schindler, 2008). We chose a constructivist paradigm, whereby social reality (Nijhof & Jeurissen, 2006) and meanings are continuously being constructed and reviewed (Bryman, 2012). Similar approaches have been adopted by other studies in the field (e.g. Belal & Owen, 2007; Momin & Parker, 2013; Adams & Larrinaga, 2019).

We used in-depth interviews because we needed to flexibly address specific issues related to the research question to capture the complexities and nuances of drivers of CSR and its reporting from managerial perspectives across regions (Bryman, 2012). We prepared an interview guide, shown in the Appendix, to ensure that specific issues were covered during the interviews. The questions were open-ended in order to allow for greater dialogue between the researchers and interviewees, and to allow researchers to ask additional questions and seek clarification for ambiguous responses, while continuing to focus on the key issues (Nachmias & Nachmias, 2007).

Before all interviews, interviewees received a brief summary of the project and a list of the questions. In a cover letter, we explained that the project was a collaboration between a British and a Chinese university, and was funded by the Institute of Chartered Accountants in England and Wales. All companies were assured that their names and the names of their managers participating in the interviews would remain confidential. All interviews were recorded and most interviewees had at least one note-taker present at the interview. In the paper, we have ensured confidentiality by omitting all names and replacing them with interview codes (Holmes, 2004) (see Table 1).

**Table 1 About Here**

Between 2011 and 2012, we interviewed executive and senior managers from companies listed on the Shanghai, Shenzhen, and Hong Kong Stock Exchanges (see Table 1). In line with previous studies (e.g. Belal & Owen, 2007), we selected the eleven largest listed companies in China. Because the concept of CSR is a relatively recent one in China, we took the view that the major companies would be taking the lead in terms of CSR and its reporting, setting a precedent for other companies. We also selected companies from different industries and regions. Although our sample does not represent Chinese listed companies in general, it does represent a range of large listed companies from different industries and different economic regions. Some of these operate mainly in global markets, others focus on mainland China (with varying degrees of international influence), and some do both (as shown in Table 1).

In total, our 27 interviewees included 13 senior executives, nine CSR managers, and five senior staff from eleven companies.<sup>13</sup> We approached the companies using the personal and professional contacts, because this is a common and effective way to contact large listed companies in China. We interviewed companies from the industrial regions in the north, and from the economically prosperous regions of eastern and south-central China. All interviewees had knowledge of and insight into their company's CSR and its reporting.

Of the companies we interviewed, five had arranged for a team of managers who knew about CSR reporting to be available for our visit. Thus, for five companies (C4–C6, C8–C9), senior managers and, in some cases, representatives for their employees, as selected by the management, attended the interviews. This allowed rich discussions on various aspects. For the remaining companies, interviews were conducted with each interviewee separately. On average, the interviews lasted between 40 minutes and 90 minutes.

The interviews were transcribed and subsequently translated into English. The transcripts were checked thoroughly by one of the Mandarin speaking researchers for accuracy. Using thematic coding, we examined the transcripts, together with additional notes taken shortly after each interview (once the researchers had a chance to discuss and reflect on each interview) (Bryman, 2012) to identify any emerging drivers. Two major drivers and influences emerged: (1) global drivers and influences; and (2) national drivers and influences. In the second category, we identified five national influences: institutionalised CSR, CSR in a harmonious society (as advocated by the authoritarian state), CSR and local requirements, stock exchange requirements, and civil society. These are presented and discussed in the next section.

## **5. Findings**

### ***5.1 Global drivers and influences***

Our interviewees considered foreign pressures to be key reasons for becoming more socially responsible and raising their standards to those expected internationally (S11). International stakeholders, including investors, customers, and collaborators<sup>14</sup>, pay a lot of attention to CSR and its reporting. For instance, the CSR manager of C1, with a large percentage of foreign shareholding, stated that in addition to product safety, their investors focus on energy saving and emission reduction, and compare them with other global companies. A similar example was given by the head of the securities and investors relations department of C4:

Foreign investors would compare our CSR report to other large multinational corporations. In their view, a company without a CSR report is not well-established... [and] ... the CSR report can help build the company's global position and prestige, and thus influence their investment decision. (S4b<sup>15</sup>)

In order to secure international legitimacy, companies had no choice but to align their CSR and its reporting with the norms and values in their global fields (Scott, 2014) in response to normative pressures from their

global stakeholders (e.g. European customers and collaborators). In this way, their CSR started to take shape as a response to external pressures (Matten & Moon, 2008).

Some companies discussed their foreign customers' demand for high CSR standards for their products and services. Here, CSR was a response to their customers' normative pressures to indicate they have the same norms and values as those of their customers:

... our most important stakeholders are our foreign clients. The CSR information is highly demanded overseas, especially in the European Union where individual needs have developed... As their supplier, we are also asked to meet their requirements. [...] to enter the high-end of the European market, CSR is *essential*. (M4)

Meeting stakeholders' expectations was important to our interviewees. Companies kept up-to-date with the changing/increasing expectations of their foreign customers. For example, they stated that their foreign customers paid a lot of attention to their supply chains (mainly environmental-related matters) in order to minimise potential negative publicity that might damage the company's reputation and, hence, its share price:

The concerns over CSR in supply chains derive from our [foreign] clients. Their concern is expanding gradually from our products to the whole<sup>16</sup> supply chain. [...] the media have been paying more attention to our company's entire supply chain process. [...] Currently, our clients' concerns ... are moving ... down to our supply chains. So, we should expand our concern to supply chains... (M4)

The companies in our sample were either among the global leaders in their industries or had ambitions of becoming global leaders in the not too distant future. Therefore, these companies had to respond to global normative pressures by implementing standards related to product safety (e.g. ISO14000/ISO18000/ISO9000 environmental and occupational safety) and obtaining the relevant certificates (e.g. ISO14001/ISO18001/ISO9001) by collaborating<sup>17</sup> with European peers (C9) to gain and maintain a global reputation for first-class products:

Our company attaches a lot of importance ... to [foreign] clients and [hence] the quality of our products or consumer services. (S5b)

We have many of our products exported internationally and deal with many leading [global] companies such as Alstom, Bombardier and Siemens, and they have a strong [CSR] culture that has impacted us over the years ... it is imperative that we collaborate with the leading foreign companies to raise our standards. [...] in a way we should be in harmony with the rest of the world ... we realise the [crucial] role that social responsibility plays in the development of our company ... (S9)

S9 pointed out that once they realized that there is a shared conception of the importance attached to CSR and its reporting among their international stakeholders, they endeavoured to remain up-to-date with the latest standards/developments. They also monitored how their (international) peers were doing so that they could imitate them in the event of uncertainty (i.e. mimetic pressures), or even become better than them, if possible, to secure a competitive edge and become a global leader in the industry. S6 added that (foreign) investors' interest in CSR is less about environmental issues, and more about how prepared companies are to face CSR challenges in the face of uncertainty:

What kind of risks there are, how companies respond to [CSR] threats [are of concern to foreign investors] ... For example, in the case of Buffett's investment, he wanted to have in-depth information about [our] development plans and the overall profile of the company. He could clearly see through the company, our developmental plans ... If he [Buffett] invests in BYD, he considers BYD's profile ... of course, serious polluters will not even be considered. (S6)

In summary, Chinese companies operating in global markets remained responsive to pressures from their global markets. The pressures our sample companies encountered internationally were mainly normative. Companies had to raise their standards to the commonly accepted norms and values of the global markets in which they were operating. In order to make the necessary changes, they worked closely with their foreign stakeholders and international peers to make up for their lack of experience, expertise, and knowledge. Clearly, interdependencies and interactions, as argued by Scott (2014), between the Chinese companies and their international peers formed part of the process that shaped CSR and its reporting. While all interviewees discussed environmental issues, only one (M4 in C4, with a high exposure to global markets) mentioned labour practices and human rights issues, stating that, in future, they may need to pay more attention to (labour issues in) their supply chains, owing to growing pressure from their international stakeholders. Even though companies referred only to environmental-related issues,<sup>18</sup> this does not necessarily mean there was no pressure on labour practices and human rights issues from their foreign stakeholders. Major companies are expected to follow official guidelines closely and, hence, focus on environmental issues, as allowed by the authoritarian state (Hofman et al., 2017).

In the Chinese institutional setting, labour practices and human rights issues are considered internal matters (embedded in the institutional infrastructure of the SOEs) and, hence, are not expected to be open for discussion. Labour practices and human rights fall outside the remit of CSR set by the government. We found that for companies that operated in global markets, CSR and its reporting formed through normative processes, together with facilitation and mediation by Chinese governments and authorities (e.g. Ministry of Finance, C5; Chinese International Chambers of Commerce, C4; Ministry of Railways, C9; Ministry of International Trade in Taiyuan, C8; see section 5.2.3). The presence of the Chinese government and authorities was an integral part of the process of deciding on CSR and its reporting (Marquis & Qian, 2014). We also observed some evidence of mimetic processes. Several companies (C4, C5) stated that they followed the latest international developments in CSR and its reporting and imitated their peers in the face of uncertainty. Furthermore, the increasing involvement of Chinese companies in global markets meant that these companies needed the government's (financial and non-financial) support and guidance. At the same time, the Chinese government was dependent on its SOEs' success internationally if it was to achieve its goal of a harmonious world to benefit Chinese economic development using the much needed global markets, resources, investment, and technology (Wang, 2014).

## **5.2. National drivers and influences**

### **5.2.1. Institutionalised CSR**

Historically, major Chinese companies have looked after their employees, and this remains true today. After the formation of the People's Republic in 1949, looking after employees and their welfare became institutionalised in SOEs. This 'paternalistic' view of employees (Huo & Si, 2001) is a legacy of the 'iron bowl policy',<sup>19</sup> which remains to this day:

The state-holding nature of our company has pushed us to perform many social responsibility activities over the years. ... Even during the financial crisis, for example, mass sacking was not allowed by the State Assets Administration Committee. (S7)

We seek to find what our employees want to see us do to fulfil our social responsibility. What kind of activities they want us to get involved in. (S2)

Companies viewed their employees as an integral part of their organisations and indicated they already have internal channels of communication to keep their employees informed of CSR issues:

We have an annual employee satisfaction survey ... and the feedback is provided to employees through the annual Employee Congress ... when the management reflects on a range of employee-issues and not specifically on the [wider] CSR issues. (E1)

The Human Resource department makes detailed reports on employees' welfare, training, and recruitment ...[and] discusses employees' exams, training and sickness subsidies. There is no need for our staff to worry, as we make sure they are being looked after. (E2)

Despite the increasing international attention on working conditions and workers' rights in supply chains, none of our interviewees referred to external channels of communication (e.g. NGOs, trade unions, or resolving disputes legally under the 2008 Contract Law), nor did they explicitly acknowledge (or were willing to acknowledge) any pressures from external stakeholders (either Chinese or foreign) in regard to their workforce. Under their paternalistic corporate culture, workforce-related issues were internal and not open for discussion or negotiation with external parties. In the two cases in which companies discussed their workforce, they did so by stating how well looked after they were, ultimately contributing to prosperous local communities. Even though interviewees did not acknowledge pressure to report on their workforce, this does not necessarily mean there was no such pressure. There was a general sense that any acknowledgement of external pressure could be regarded as an acceptance of the failure to fulfil their paternalistic duties (Ten Brink, 2019); as such, asking additional questions would have been viewed as questioning their integrity to fulfil their responsibility towards their employees and, hence, deeply offensive. This ties in with the high level of sensitivity attached to human rights issues. As stated earlier, only one interviewee, M4, alluded to potential future considerations of reporting on their supply chains in response to growing stakeholder interest. Additionally, responsibility to local communities (e.g. charitable donations to earthquake victims, flood victims, and local projects (S2, S3), and to common causes such as the education of children or providing funding for top performing pupils to study abroad (M4, S7)) and remaining responsive to local needs were embedded in interviewees' corporate culture and regarded as traditional forms of CSR.

In addition to these traditional forms of CSR, interviewees acknowledged that new forms of CSR, mainly related to the environment, have emerged in response to what has been advocated and led by the state. For these new forms of CSR, more systematic and progressive approaches were allowed and encouraged by the authorities, while a great deal of sensitivity remained over workers' rights and their welfare (i.e. human rights-related issues). E2 stated:

The focus has changed ... to include social responsibility to the whole society, (to include) the impact on the environment and other resources. A more systematic approach is being adopted in the implementation of CSR and its reporting. (E2)

Employee- and community-related issues are both regarded as an integral part of SOEs' responsibilities, which have become institutionalised over time. Furthermore, both are similar to Matten and Moon's (2008) implicit CSR in the sense that they are non-voluntary in nature, formed over a long period, and controlled and co-ordinated by formal and informal rules. What differentiates Chinese implicit CSR (from Matten and Moon's implicit CSR) is that partnerships formed with employees and local

communities did not allow either stakeholder group to voice their interests and concerns and liaise with companies. Instead, companies were mandated to determine their employees' interests and look after them. Similarly, companies had to actively respond to local communities' needs and expectations. Given the diversity of Chinese culture and the varying economic prosperity of the regions, these expectations and needs varied significantly. Nevertheless, regardless of these variations, all local governments and authorities monitored how responsibly companies behaved and granted them access to various resources accordingly. Interviewees expressed that there was not much need for reporting on international issues. When asked about reporting on employee-related issues specifically, the common response was that they communicate with employees about their issues via internal channels of communication (staff congress, newsletters, one-on-one meetings, etc.) on a regular basis. Furthermore, there was little demand (domestically) for reporting on employees (or on their local communities).

### 5.2.2. *CSR in a harmonious society: As advocated by the state*

Our interviewees' vision of CSR concurred with the state's advocacy of a harmonious society. Interviewees from eight companies (C1–C2, C4–C9) elaborated on the notion of harmony and its importance to wider society and the country, emphasising the importance of CSR's roots in ancient Chinese philosophies and the role of the cultural value system (S2) in achieving harmony in China:

Harmonious Society as an official term is widely used now. ... (S6a)

In a harmonious society, all enterprises should understand the ultimate goal and perform social responsibility voluntarily. (S7)

... philanthropy has always been advocated by the doctrines of Confucius and Mencius, according to which we all have to help each other when we have the means to do so. [...] The idea of Confucius and Mencius leads the trend even today ... to form a harmonious society. (S2)

Maintaining harmony is considered essential to balance in wider society and success:

CSR has now developed into triple bottom lines: environmental, economic and social. ... we combine environmental and economic aspects into one ... [and] divide the social aspects into labour rights, product liability and public welfare. (M4)

... We now emphasise sustainable development or social responsibility, ... a company has its bottom lines for its sustainable development. [...] Therefore, CSR and corporate business operations are not contradictory... escaping from social responsibility will receive punishment. (S6b)

In a way, the notion of a harmonious society establishes cognitive influences. It defines what CSR and its reporting should mean in a broader Chinese context, and establishes its purpose in a social system with a top-down approach (Child et al., 2007; Wang et al., 2018), according to which the state is considered the top of the hierarchy, and everyone else is expected to follow suit:

In China, everything we do is guided by the government and participated in actively by the people. CSR is no exception. [...] All companies follow the [CSR] requirements very closely and report CSR. As long as the government is advocating CSR, companies engage in CSR and its reporting until doing so becomes [an integral/institutionalised] part of [our] routines. (S2)

In this context, CSR is regarded as a response to China's increasing involvement in global markets, implying that Chinese companies could benefit from improving their CSR (M8). Our interviewees

explained that in the absence of necessary mechanisms, they adopted CSR and its reporting by working closely with officials, such as those from ministries and organisations with official links, which provided them with the support necessary to implement CSR and its reporting (Dentchev et al., 2017; Wang et al., 2018). They provided information about their CSR and its reporting and made the necessary adjustments when recommendations were made for further improvements. In this way, the government (or its related organs) moderated CSR and its reporting and exerted its influence:

... there are many pressure groups and mature civil society mechanisms in Western countries, while in China, we do not have such mechanisms. This is why CSR and reporting on its various aspects are more mandatory rather than voluntary in China at present. (S6a)

Two days ago, the China International Chamber of Commerce required us to submit materials on our CSR performance abroad. [...] There are many similar examples and all requests have official links and the government is involved in the review process. [...] this is how the government supervises companies. [...] For example, ... China's State Environmental Protection Agency reviews all the environmental indicators of our industrial projects; sometimes, the National Development and Reform Commission requires us to submit relevant information when they accept projects. These are all assessments of CSR from different levels [of officials and authorities]. It will be useless if a single Department examines the CSR of a company. (S5a)

Working closely with officials (and their related organs) and responding to their (formal and informal) queries are integral parts of corporate culture and an established cognitive aspect. This ties in with the spirit of Chinese capitalism described as Confucianism (Ten Brink, 2019), where the government is at the top of the hierarchy (Chow et al., 1995). Then, the only legitimate mode of behaviour is to respect the government and its officials and follow them closely without challenging them (Yin & Zhang, 2012); in this way, companies secure political legitimacy with their local authorities and governments (Lin, 2011; Situ & Tilt, 2012; Zhao, 2012; Marquis & Qian, 2014).

### 5.2.3. *Local requirements*

The central government sets overall guidelines and conveys them to local governments and authorities in provinces, regions, and municipalities. The local governments and authorities subsequently decide on local indicators and requirements that cater to the local needs, while agreeing with the central government's overall guidelines. In doing so, different aspects of CSR and its reporting are facilitated and mediated by ministries or related organs. In this way, CSR and its reporting became localised to serve the developmental strategies of local governments:

The central government does not have any direct requirements. [...] Instructions are usually conveyed through relevant ministries or provincial or municipal government. [Local government departments] in charge of our company will convey the instructions to us, which is one aspect. The other aspect is from the perspective of regulatory agencies: the Shenzhen Stock Exchange and the Securities Regulatory Bureau of Guangzhou which is the local agency of the SFC [Securities and Futures Commission]. Sometimes they give us specific requirements. [...] For example, China's International Chamber of Commerce requires us to submit our global CSR report for their review and monitoring. (S5)

...the regional guidelines are a lot more detailed [than those of the central government] [and] ... much stricter. At regional level, companies pay taxes to local governments, so they have to follow their guidelines very closely. ... the central government's indicators of ... the Twelfth Five Year

Plan were distributed into provinces who then distributed their own indicators to the cities where our plants were located. (M1)

As the majority of our business is scattered across different regions, the community influence is essential to us. We need to take into consideration local employment, environmental protection and the development of the local economy. (M1)

Other relevant examples of facilitation and mediation by the local government and authorities relate to C8 and C9. C8 had a number of major foreign collaborators (i.e. they worked closely with other leading global companies in their industry). Although they negotiated with one of their major European collaborators (a European company and world leader in their industry) in order to improve their environmental standards, they had to work with the Ministry of International Trade in Taiyuan before finalizing any agreements. As a result, their final products are now environmentally friendly and in line with internationally accepted standards. A similar example relates to C9, which has many international customers:

... we deal mostly with the Ministry of Railways, not only because they are a government regulator, they also represent [our main] customer ... it is a little complex. [...] railway representatives are sent to our company, so that we have a closer relationship. [...] All our products have to pass their strict inspection before going out. They monitor *quality, quantity* and *delivery schedule*. [...] The main requirements [we have to meet] are those set by the SFC. We combine their requirements with other standards (such as some aspects of GRI and ISO 26000 that are relevant to us). For example, we have adopted ISO 14000 voluntarily. (S8)

Local authorities require that only some companies adopt international guidelines (e.g. GRI or UN Global Compacts), which they facilitate by organising training sessions to improve companies' understanding of what is expected of them. Authorities often exerted an influence indirectly (without appearing to be intervening in companies' affairs) via their various organs (e.g. the Chinese International Chamber of Commerce in Shenzhen; C4, C5). This often meant there was no official policy; instead, authorities simply communicated their requirements informally during meetings and conversations with company heads. This was particularly the case for companies that competed globally (e.g. C4, C5, C9, C8). For these companies, systematic compliance with international norms via close collaborations with their local officials was an integral (institutionalised) part of their operations.

Following the informal (and formal) rules of local governments and authorities (e.g. in the South-Central region; C4 and C5) is a cognitive aspect. Informal rules (i.e. where there are no official policies) could be ambiguous, leading to companies imitating other global leaders in their industry (M7). The importance of these rules, whether formal or informal, is such that executive managers (i.e. board members and the chairman) get directly involved to ensure clarity and smooth implementation (C1, C9) to the satisfaction of the authorities. In this way, they can mobilize (financial and non-financial) resources held by authorities (Marquis & Qian, 2014; Witt & Redding, 2014; Luo et al., 2017) and obtain state subsidies (Lee et al., 2017). This is illustrated by the following quote:

Several major polluting manufacturers [in our region] were too late to launch a new [green and environmentally friendly] project and now are faced with relocation and are being re-graded [by the local government]. But we already had the road paved. [...] If we were to be moved out, we could not take the land, plant and equipment with us ... [and] not all our employees could move with us ... so we would lose skilled workforce. [...] Hence, whenever the city encounters difficulty, we help. (S8)

The extent to which companies pay attention to their local communities varies across regions, depending on the local authorities and the expectations of their local communities. While none of our sampled companies referred to social groups within their local communities or regions, they acknowledged that CSR and its reporting are a response to public expectations (see section 5.2.4) in a region. This is particularly the case for companies operating in Shenzhen and Shanghai (i.e. the South-Central and East Coast regions), where local communities are more aware of environmental issues and, hence, have more sophisticated expectations. For example, C5 referred to their endeavours related to environmental preservation, such as energy saving, recycling, and product safety, and alluded to their involvement in local educational projects to support outstanding pupils to continue their education abroad. The southern companies had sophisticated and dedicated teams for CSR and its reporting, and it was important for them to convey their strong roots in their local communities (C4 and C5). In contrast, companies in the industrial north referred to less sophisticated forms of CSR in relation to their local communities. They were more concerned about the welfare of the local communities where the families of their employees resided, and less about conveying a message of being responsible (C6). They did not allude to any expectations from their local communities (i.e. no normative pressure), and stated that their communities were happy with the prosperous local economy to which they were a main contributor. They explained that their local communities knew everything about the company and, hence, there was no need for reporting (C6).

In summary, what is notable in China is the wide range of issues that companies discuss in relation to their local communities in regions with greater international exposure. As such exposure increases, so does the attention companies pay to their local communities. Companies in regions with greater international exposure spoke of local communities' awareness of CSR, and their sophisticated demands and expectations. At the same time, these companies faced more scrutiny from officials (and their related organs). The state invested heavily in these regions, providing local governments with financial support to operationalise the necessary support and guidance (Zhou et al., 2014). In regions with limited to no international exposure, CSR and its reporting is more relaxed. For example, not all companies in the north are required (by their local government) to report on their CSR and, hence, are monitored considerably less strictly by their local authorities. This reiterates our earlier arguments that in each region, local governments devise policies and regulations that cater to specific local needs and their developmental strategies (Child, Lu & Tsai, 2007; Wang et al., 2018), and have the power to allocate resources accordingly (Marquis & Qian, 2014; Luo et al., 2017). In regions with international exposure, public awareness of social issues resulted in more monitoring and control by local governments in order to ensure that CSR and its reporting concur with the central government's overall policies. Our findings echo those of Hofman et al.'s (2017) model in that, in a Chinese context, CSR is formed not only as a response to normative pressures from global markets, but also as a result of moderations by the authoritarian state.

#### 5.2.4. *Stock exchange requirements*

Compliance with guidelines and regulations, as outlined in Article 5 of the 2006 Company Law and set out by the stock exchange rules, initiated CSR reporting for many of our companies (C1–C5, C8–C9, C11):

The requirement from the Shenzhen Stock Exchange only pushed us to disclose the report in advance. [...] The Shenzhen Stock Exchange published the requirements at the end of 2008, which happened to be one year ahead of our company's schedule. (M4)

It is completely voluntary for us to report CSR. According to the requirements of the stock exchange and the China Banking Regulatory Commission, disclosure of the report is mandatory for certain listed companies and is encouraged for others. We are not in the list of mandatory disclosure, but we still chose to disclose it voluntarily. (S3)

We have published our CSR report firstly under the requirement of the regulator. And during the publication, we realised how valuable it was to a listed company. (S2)

Listed companies were beginning to pay more attention to their investors, and had started to develop departments related to investor relations management (S9).

We have many subsidiaries... These subsidiaries have done many social activities. We felt that since our shareholders support the operation of such a large company, they should at least know what we have done to fulfil our [CSR and] community commitments. (S3)

In certain circumstances, some CSR indicators may influence how investors value stocks. If investors feel that the content of the report is very detailed, they might be willing to pay a premium. (S9)

The above views were echoed by other company secretaries (S2, S8, S9, S4, S11). A CSR manager referred to the importance of CSR reports as the main source used by the Shenzhen Stock Exchange to enter and subsequently rank their Social Responsibility Index:

The Shenzhen Stock Exchange has such a Social Responsibility Index, ... evaluating the social responsibility reports or how corporations fulfil their social responsibilities. The Social Responsibility Index will guide and influence investors. [...] The Index belongs to an NGO and is based on the report itself not on what you did. (E8)

Even though CSR reporting guidelines by the stock exchanges were responsible for initiating CSR and its reporting for many of our companies, compliance with these guidelines was not always mandatory. Companies paid attention to investors because doing so was prestigious for them, especially if they had foreign investors. In line with previous findings (e.g. Cumming et al., 2016), our interviewees made limited comments on their liaisons with their investors, and made little mention of whether or not they felt any pressure from them. Despite the growing importance of stock exchanges, they are still not the main providers of finance in China (Allen et al., 2012). Hence, investors play a limited role in shaping CSR and its reporting.

#### 5.2.5. *Civil society*

As discussed earlier (see section 5.2.2), our interviewees openly acknowledged the absence of supporting mechanisms, similar to those in the Western context, in civil society. Nonetheless, they discussed aspects of civil society that contributed to moving the CSR agenda forward. We discuss these in this section.

*Media.* The common practice for companies was to maintain their positive image and never report any negative incidents, because these were eventually covered by the media (C1, C8–C9, C11). Their main concern was avoiding projecting an unnecessarily unfavourable image to their investors:

The nature of the incidents is not decided by us, ... if we report on negative incidents, investors will not believe us. ... it is impossible for us to hide negative incidents or describe them very well. ... Handling our relationship with the media is very important [to us]. Our share price has remained very high in the entire industry as institutional investors ... agree with ... the [CSR] information we report. (S9)

From the perspectives of stakeholders, especially the foreign ones, more attention is paid to our managerial systems and how problems are dealt with. ... If we report [negative] incidents in one

year ... our overall safety management will be questioned. Therefore, we disclose the overall picture rather than giving the details. (S8)

Fierce rivalry in global markets often means that Chinese companies are under significant pressure related to CSR and its reporting. Companies with a global ambition endeavour to excel in terms of CSR whenever possible (C4, C8). In some instances, the media has helped companies improve their CSR. Instead of consulting their stakeholders, companies would seek to obtain feedback on their reports from ministries and their related organs (i.e. 'third-party opinion-leaders') about their reports:

The opinion-leaders who went through our [CSR] report [and] proposed suggestions and evaluations, included: ... the President of China CSR Union; the Vice president of China International Chamber of Commerce; ... the representative from the Department of Commerce; Prof. [X] from the Department of Commerce and Economic Co-operation Institute; the Director of Peking University Private Research institute; ... In addition, there were some media outlets, their editors-in-chief, who provided us with comments and feedback ... We continue to keep track of their views. (S5b)

S5b explained that there are many media companies in China, but that the major ones all have official connections and co-operate with several ministries, such as Xinhua News Agency and the Development Reform Commission. The media selectively report on CSR aspects by some companies; hence, it is a good idea for companies to send drafts of their reports to them for feedback (S5a).

*Social activism versus social awareness.* While interviewees referred to an increasing public awareness of CSR-related matters, little mention was made of social activism in connection with CSR and its reporting. Furthermore, they did not specify what issues, other than environmental-related matters (i.e. labour practices and human rights), the public should be concerned about. Instead of 'social activists', our interviewees referred to 'social organisations' when discussing social views:

'Social organisations' and the general public are the ones who most care about CSR. They are concerned about social development, human rights and cultural issues, ... [Social organisations] such as Greenpeace, Animal Aid, the Environmental Protection Agency ... aim at equality of social rights. ... our social organisations are too primitive compared to those in Western countries; our CSR reports are rather elementary ... the public's awareness about the disclosed information still has a long way to go. (S6b)

While the notion of independent activism does not really exist in China, the sampled companies were well-informed about the scrutiny they are under (by international activists). Hence, they strive to (appear to) reach the same CSR standards as their international competitors, and even to excel and become international exemplars (mainly in terms of product quality/safety and environmental-related issues). In the case of workforce-related matters, the companies described their attractive employment packages, covering various aspects related to their employees. Nonetheless, none of these companies had an independent employee representative to attend our interviews. All employee representatives held senior managerial positions and/or were in charge of employee-related issues for the whole company. In China, there are no independent employee representatives or independent labour unions. The 'labour unions' are closely affiliated with corporations' top management boards, and form the so-called 'Corporate (Communist) Party Committee', which is used to prevent unrest among workers and chaos inside organisations. In some sense, the labour unions represent a monitoring mechanism deployed to observe workers' disciplinary behaviour and potential actions (e.g. a strike).

On reviewing the CSR reports of our companies, only four companies (C4, C5, C8, and C10) acknowledged having NGOs/NPOs<sup>20</sup> as stakeholders and stated that they had collaborations with them (since 2012, 2009, 2015, and 2007, respectively), without naming these NGOs or identifying their fields of interest (e.g. labour- or environmental-related issues), or providing any further details about their liaisons. Companies avoided elaborating on and, at times, projected their own interpretation of terminologies. For example, C4's CSR report (2018) stated that: 'NGOs/NPOs are also our important stakeholder groups', stating that they need to communicate with them by organising, for example, site visits or meetings. Furthermore, they added that, 'NGOs are organisations such as professional bodies, social organisations and industry associations etc. Their expectations need to be considered.' This is also reflected in our interviews in the sense that labour and human rights (S6a) and public welfare (S4b) were passively mentioned, without provision of any details or further discussion. At times, interviewees used the cover of compliance with international standards (S6a), or distracted attention by referring to other related points (S4b):

The human rights, trade union and anti-corruption requirements are all different, ... we can use international standards for reference. [...] CSR reporting in China should not strictly follow the requirements of international standards. (S6a)

We divide the social aspect into labour rights, product liability and public welfare. [...] we should keep CSR and environmental protection in mind and try to make our products environmentally friendly and safe. Only in this way can we better fulfil social responsibility. (S4b)

In essence, the avoidance of any reference to individual rights is in line with the central government's sensitivity to the subject, and is congruent with their top-down approach to CSR (Child et al., 2007; Wang et al., 2018):

In Western countries, the attention to CSR reporting originates from everyone at the bottom end and is then gathered at the top while, in China, it is the person at the top who pays attention to CSR reporting and pushes the concept downward. (S6a)

Similar views of a top-down approach to CSR were expressed by S1, S5b, and S8. Here, the government views CSR as a *value-creating process* that projects the right image for companies and gives them a competitive edge at a global level (S2):

Our CEO (and board of directors) consider the [CSR] report as beneficial and that it helps us to upgrade our image and brand value. (S2)

In summary, none of our interviewees referred to social activism (nor engagements they had with any international activist group). There was no direct interaction between companies and their (external) domestic stakeholders. Instead, references were made to 'social organisations'<sup>21</sup> or social intermediaries. These organisations not only monitor companies (some randomly), but also convey to them what is expected of them (at a societal level and as approved by the government) in terms of CSR and its reporting. This gives SOEs a sense of the dimension of their social responsibilities. In other words, SOEs depend on social organisations and social intermediaries to assess their social expectations. On many occasions, companies approached these organisations for guidance and advice (i.e. 'third-party opinions'); on other occasions, they were open to scrutiny (i.e. questions or reviews) by these organisations. In essence, relationships with such organisations helped companies maintain their responsiveness to governmental signals and expectations, thus securing their overall political legitimacy (Lin, 2011; Situ & Tilt, 2012; Zhao, 2012; Marquis & Qian, 2014). At the same time, the government depends on its social organisations and social intermediaries to respond to social expectations via its major SOEs (i.e. 'responsive' authoritarianism; see Marquis & Bird, 2018) and maintain its social legitimacy (Moon & Shen, 2010). In

other words, there is a mutual dependency between the government and its SOEs in their domestic market. Similar to previous studies (e.g. Marquis & Bird, 2018; Situ et al., 2018), we found no evidence of normative pressures from Chinese civil society. In addition, government influence is indirect in that many of our interviewees did not acknowledge any direct interventions.

## **6. Conclusion**

We examine the main drivers of CSR and its reporting for large Chinese listed companies. Our overall findings reinforce the conceptualization of Chinese CSR by Hofman et al. (2017) as a ‘state-led society-driven’ model, indicating that the drivers of CSR are a confluence of international stakeholders’ demands, domestic societal expectations, and the mediation of the two by the Chinese state. With China’s continued socialization into global markets, Chinese companies are endeavouring to become legitimate members of the global business community by conforming to global norms, values, and practices. They achieve international legitimacy through normative and, to a lesser extent, mimetic processes in their international markets by working with foreign peers and co-operating with local governments before making CSR decisions. In this process, local governments have the flexibility to play supportive and monitoring roles by facilitating, mediating, and deploying social organisations and social intermediaries to ensure that companies adhere to the state’s values and norms. However, the nature and extent of the support local governments provide major companies varies across regions, depending on the local governments’ own developmental plans and global exposure.

In contrast, companies operating mainly in domestic markets with limited or no exposure to global markets are subject to less engagement with their local governments. We found no evidence of normative pressures in the domestic market. For most of the sampled companies, CSR and its reporting began as a coercive process (when formal rules were introduced by local governments and stock exchanges). However, informal rules (at a local level) play an important part as well, because they allow local governments the flexibility to remain responsive to social and economic issues in their regions. Major companies have to remain responsive to these informal rules. In particular, we find that ‘social organisations’ and social intermediaries (called ‘opinion leaders’) help drive the agenda for CSR and its reporting and convey informal rules to companies. The relationships between these organisations and companies work in two ways: the organisations monitor the companies and provide them with necessary support and guidance; at the same time, companies approach the organisations for their views (called ‘third-party opinions’). Because there is no direct contact between companies and their external domestic stakeholders, social organisations and social intermediaries play an important role in informing companies of topical issues and concerns and conveying to them the boundaries for acceptable modes of response. Even though none of these organisations are government departments, they have strong official links and, hence, are well informed of the latest official views and expectations. We find that it is through them that the government defines and shapes CSR and its reporting. Furthermore, the companies avoided discussing labour practices, human rights, or social unrest in their areas. Instead, conversations were diverted to discussions on the family-oriented nature of Chinese culture, and how its collectivist attributes embrace the notion of looking after local communities and taking care of their families. The strictness of their focus on environmental-related aspects resonates with the authoritarian state’s interpretation of CSR (as argued by Chen et al., 2018). This, to a large extent, reflects how successfully the top-down approach is functioning across all regions (even those with high exposure to global markets). In addition, it shows how cultural attributes (such as respect for authority and an avoidance of critical thinking/discussion) meant that all interviewees respected and observed the boundaries set by the central government on CSR and its reporting.

Overall, we find that large listed companies treat CSR and its reporting as a way to gain political legitimacy (with their local governments) (Lin, 2011; Situ & Tilt, 2012; Zhao, 2012; Marquis & Qian, 2014). At the

same time, CSR and its reporting help the state maintain its responsiveness to changing social expectations and retain its social legitimacy domestically, while raising its standards and conforming to global norms and becoming a legitimate member of international markets. In a Chinese context, CSR and its reporting are based on the notions of a harmonious society and a harmonious world, with deep roots in Confucianism, reflected in a hierarchical system with the state at the top, and without any recognition of individual rights. In such a system, any non-conformance with the (formal/informal) rules of the authorities is viewed as a challenge to their legitimacy, and is not tolerated. To achieve such conformance, we find that companies work closely with authorities, social organisations and social intermediaries to ensure that their responses to various pressures to engage in CSR and its reporting agree with the overall value system advocated by the central and local governments. Hence, discrepancies that could be interpreted as potential challenges to the legitimacy of the state are avoided. However, this does raise a concern about the roles social organisations and social intermediaries (with official links) play as agents who supposedly represent the interests of social groups, while the independent voices of non-state organisations are silenced. In view of the current political constraints, most non-state organisations are struggling to survive in China and, thus, are hardly in a position to voice their concerns and shape CSR and its reporting.

With a growing middle class and increasing international demand for information on working conditions in supply chains, it is questionable how long CSR and its reporting can retain its focus on environmental issues, while continuing to enable SOEs to maintain their legitimacy in global markets and help the government to maintain its social legitimacy. The answers to these questions depend on how influential the middle class can be in leading social and political changes in China, and how powerful international forces will be in terms of effecting change. The Chinese middle class has been subject to much debate in recent years. Some view the Chinese middle class as being critical of official corruption and the monopoly of power held by the state (Li, 2010), and as pro-democracy (Tang, Wood & Zhao, 2009). Others hold that they form only a small percentage of the population (about 12%), and are closely associated with the state (Goodman, 2016); hence, they are unlikely to initiate any challenge to the power of the state in support of democracy. Given the importance of an independent civil society and social activism (as argued by Islam et al., 2018), CSR and its reporting are unlikely to address the individual rights of stakeholders (e.g. workers' rights in supply chains) unless fundamental changes are initiated and propagated by the state. Given how successful mandatory CSR disclosures have been in generating positive externalities (mainly environmental in nature) (Chen et al., 2018), will the state follow a similar path and broaden the scope of CSR and its reporting to include labour- and human rights-related issues?

Our paper has a number of limitations and offers several avenues for future research. Between our data collection in 2011–2012 and producing the final version of this paper, we observed no notable socio-political changes that could potentially change our findings. However, given the unprecedented decline of 6.8% in China's GDP in the first Quarter of 2020 after the Covid-19 crisis,<sup>22</sup> there may be significant socio-political changes and changes in global pressures in the near future. Then, even though most of the companies in our sample can be regarded as exemplars that set the norms for CSR and its reporting among large companies in China, our findings cannot be generalised to all large listed companies operating in China. Given that China has the second largest number of global companies (after the United States) among the G250 (75 US companies, 49 Chinese companies) (KPMG, 2017, p. 54), global Chinese companies require far more attention. For example, in terms of regional diversities across China, future research could concentrate on a specific region and examine the interplay between civil society and societal expectations. Our findings do not capture the institutionalisation of CSR and its reporting in less prosperous regions of, for example, the western part of China. In such areas, there is considerably less global exposure and, hence, societal expectations may be relatively moderate. As a result, regions' CSR priorities may vary significantly. Another limitation relates to our findings about civil society. Specifically, our findings on the

interplay between companies and civil society in different regions are from the perspectives of the companies only. Thus, they do not include views from civil society (e.g. NGOs, trade unions) and lack insight into the functioning of such relationships, how they vary across regions, and the extent to which civil society is led by the state.

Future research could also explore the experiences of groups representing civil societies in different regions and how they maintain their relationships with the state and their regional authority while assessing societal expectations. In addition, little is known about how regulators and standard setters in different regions disseminate their CSR policies to companies via social groups and organisations. Another limitation relates to the majority of our interviewees being Party members, and the heads of our sampled companies holding senior ranks in the Communist Party Council. Managers from smaller SOEs or privately owned companies do not necessarily hold such high positions in the Party and, hence, may have much weaker (or even no) ties with the authorities. Companies that are more important to the government are more closely supported and monitored by the authorities (Marquis & Qian, 2014). Thus, companies that are less important and have weaker ties with the state may be subject to less scrutiny by the authorities and, thus, have entirely different relationships with social organisations and social intermediaries. Future research could focus on how CSR and its reporting are shaped for these companies, as well as the forces they encounter when deciding on their CSR and its reporting, and the role civil society plays in the process.

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**Table 1 Information about companies and interviewees**

Companies					Senior managerial team (S)		CSR managers (M)		Employee representatives (E)	
Code	Ownership*	Region	Industry	Stock Exchange	Code	Role in the company	Code	Role in the company	Code	Role in the company
C1 <sup>b,c</sup>	SOE	Beijing (North, the political centre)	Food manufacturing	Hong Kong	-	-	M1	Head of accounts department (in charge of preparing CSR reports)	E1	Manager in charge of communication with employees
C2 <sup>b,c</sup>	Private <sup>†</sup>	Beijing	Real Estate	Shenzhen	S2	Company Secretary	M2	CSR Manager	E2	Manager in charge of employees' issues, reporting to the company secretary
C3 <sup>b,c,¥</sup>	SOE	Shanghai (East coast, the commercial and financial centre of mainland China)	automobile sale and automobile services	Shanghai	S3	Company Secretary	M3	CSR Manager	-	-
C4 <sup>a</sup>	SOE	Shenzhen (South-Central, a major manufacturing centre in China)	Telecommunications	Shenzhen	S4a S4b	- Financial Director – also involved in preparation of CSR reports - Head of Securities and Investors Relations Department	M4	Head of corporate culture department and in charge of preparing CSR reports	-	-
C5 <sup>a</sup>	SOE	Shenzhen	Electrical manufacturer	Shenzhen	S5a S5b	- Board Secretary -Head of Public Relations	M5	CSR Manager	-	-
C6 <sup>b</sup>	SOE	Tianjin (North, important industrial base)	Port operations	Shanghai	S6a S6b	- Company Secretary - Securities Affairs Representative and Vice President	M6	CSR Manager (also represented employees)	-	-
C7 <sup>b,c</sup>	SOE	Tianjin	Heavy Industry	Shanghai	S7	Board Secretary	-	-	E7	An employee who reports to the company secretary whose office is in charge of CSR reporting.
C8 <sup>a,b,‡</sup>	SOE	Taiyuan (North, the largest coal mining centre in China)	Iron and steel manufacturers	Shanghai	S8	Company Secretary	M8	CSR Manager	E8	Manager in charge of reporting employee issues to CSR managers
C9 <sup>a,b</sup>	SOE	Taiyuan	Production and marketing of heavy railways	Shanghai	S9	Secretary of the Board	M9	Chief General Accounts Officer (responsible for preparing CSR reports)	E9	-
C10 <sup>b</sup>	SOE	Beijing	Metals and mineral trading	Shanghai	S10	Company Secretary	M10	Head of accounts and in charge of preparing CSR reports	E10	Head of Human Resources
C11 <sup>b,c</sup>	Private	Ningbo, (South-Central, near Shanghai: the most 'international' city)	Apparel and fashion suppliers	Shanghai	S11	Vice President and Company Secretary	-	-	-	-

Notes: \* SOE denotes 'State-Owned Enterprise'. 'a' Companies operating mainly in global markets. 'b' Companies operating mainly in domestic markets. 'c' Companies operating mainly in domestic markets but also have foreign importance foreign stakeholders. † The founder holds a very high ranking position in the party. ‡ The largest Iron and Steel manufacturer in the world and collaborates closely with a US company and other European companies in the same field. ¥ has major European and Asian collaborators.

## Appendix - Interview guide

### *a. Questions for managing directors, chairpersons, company secretaries and independent directors are as follows:*

1. What do you understand by the term Corporate Social Responsibility (CSR)? Why do you think it is important that your company undertakes CSR?
2. What CSR activities does your company undertake? (please provide examples)
3. What motivates your company to report social and environmental information?
4. Who do you think is interested in the social and environmental information you report? Explain why you think so?
5. Can you discuss your company's experience in engaging in social reporting? Or how do you prepare CSR reports?
6. What do you think the important aspects of CSR are in general?
7. Do you seek to determine the views of your investors and employees (and their information needs) before engaging in CSR and/or deciding on what social and environmental information you will report? (if not, why not?)
8. How far are you influenced by any of the followings when disclosing social and environmental information?
  - a. National or international regulatory requirements/codes of conduct (e.g. GRI guidelines, AA1000AS (stakeholder dialogue), ISO2600, SA8000 etc),
  - b. Industry specific regulations/requirements (e.g. *CSC9000T*)
  - c. The State policies (at **regional** government or **Central Government** level?, i.e. what do you do if there are discrepancies between the two levels),
  - d. (Chinese) Legal requirements (are there any penalties for non-compliance? If yes, what are they?)
9. How far are you influenced by any of the followings when disclosing social and environmental information?
10. What are the main conflicts between the needs of different stakeholders and between CSR and other corporate objectives (e.g. cost efficiency)? How do you attempt to resolve them?
11. Do you provide any form of assurance on the CSR information you report? If yes, what form of assurance do you use?
12. How do you see the situation is changing and how likely is it to change further in the future?
13. Do you think that the old Chinese cultural philosophies (e.g. Confucianism, Taoism, Buddhism) have any impacts on CSR?

### *b. Questions for employee representatives:*

1. What do you understand by the term Corporate Social Responsibility (CSR)? Why do you think it is important that companies undertake CSR?
2. Do you expect companies you invest in (in the case of investors) or work for (in the case of employees) to have some degree of involvement in CSR? If yes, explain why it is important to you that they do and state examples. If not, why not?
3. What do you think motivates companies to undertake and report CSR?
4. Do companies make any attempts to determine your views about CSR matters they are involved in or they report?
5. How do you see the situation changing and how it is likely to change further in the future?
6. Do you find the CSR information provided by companies useful in your decision making?
7. How far do you think companies (your company, the case of employees) are influenced by the followings:
  - a. National or international regulatory requirements/codes of conduct (e.g. GRI guidelines, AA1000AS, etc),
  - b. Industry specific regulations/requirements (e.g. *CSC9000T*)
  - c. The State policies (at regional or national level?),
  - d. (Chinese) Legal requirements (are there any penalties for non-compliance?)
8. How far do you think companies (your company, the case of employees) are influenced by the followings:
  - a. Stock exchange requirements,
  - b. Western customer supply chain requirements, This is
  - c. Western joint venture requirements,
  - d. World Bank funding requirements,
  - e. NGOs (national or international) – (if yes for national NGOs, are they GONGOs, Government recognised NGOs, or any Chinese national NGOs)?
  - f. International trade unions
  - g. Media (national or international)
  - h. Social networks
  - i. Other national or international organizations (please name them?)
9. Do you expect companies to provide some form of assurance on CSR information they report?

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## Notes

<sup>1</sup> In line with the Chinese state's advocacy of a harmonious society, the government has been promoting CSR to rebuild their social legitimacy (Moon & Shen, 2010) and to help them with a fairer wealth distribution. In 2005, a 'Harmonious Society' policy was instituted in response to the increasing social injustice/inequality and environmental problems that emerged as a result of economic developments. Equally important, the notion of a 'harmonious world' was devised at a later stage to bring China closer to the rest of the world so that China could use global markets, resources, investment, and technology, while maintaining its national identity (Wang, 2014).

<sup>2</sup> Since the late 1970s, when the central government initiated a decentralization process, regional and local governments have been delegated the fiscal and administrative responsibility of engaging the market by, for example, supporting local companies to compete in the marketplace (i.e. local-state corporatism) (Lin, 2011).

<sup>3</sup> In China, all social organisations must register with their local government authority; furthermore, their activities must be approved by their local government, and the implementation of their activities needs to be supervised by government officials (Saich, 2000; Li, 2012). Social organisations violating regulatory requirements are prosecuted and dismissed, and relevant personnel may be arrested or even jailed. The leaders of social organisations take a co-operative and soft approach with the government, and promote the government's advocacy (Li, 2012; Richter & Hatch, 2013) (also see Endnote 21).

<sup>4</sup> We would like to thank an anonymous reviewer for encouraging us to identify this contribution of the paper.

<sup>5</sup> CSR and its reporting may be different. Companies may engage in a range of CSR activities that they do not report on; others may not necessarily complete every CSR activity they have reported on. In this paper, we considered CSR and its reporting because our interviewees referred to both during the interviews.

<sup>6</sup> According to Zhao (2012, pp. 439-440), 'political legitimacy is conferred by the state endorsement according to a company's appropriateness and desirability defined by local political values. States across developed and developing worlds share the cognition that corporations as members of society have a responsibility to make positive contributions to better social conditions ...' In China, CSR (e.g. in the form of philanthropic activities) can play a crucial role in mobilizing state resources. Hence, companies are likely to treat CSR as an extension of their efforts to pursue legitimacy with the state (Zhao, 2012).

<sup>7</sup> Chen et al. (2018) focused on environmental pollution.

<sup>8</sup> Here, legitimacy is considered as '... a condition reflecting the perceived consonance with relevant rules and laws or normative values, or alignment with cultural cognitive frameworks' (Scott, 2014, p. 72).

<sup>9</sup> What makes Chinese capitalism unique is the state's total control of capitalism, which means the state's total involvement in the economy and 'complete synchronization of a party-government-military-economy regime' (Li, 2011, p.70).

<sup>10</sup> Smaller and private companies secure their finances through private (often family) sources.

<sup>11</sup> The only officially recognised trade union in China, All-China Federation of Trade Unions (ACFTU), is a Communist Party organ and an arm of the government. Officially, if workers wish to raise issues legally, they can do so via their trade union representatives. However, a major problem is workers' limited awareness of their rights and what their union representatives can potentially do for them.

<sup>12</sup> All key managerial positions in SOEs are appointed by the State Asset Supervision and Administration Commission (SASAC) and the Party. The unique relations between the Party, government, and SOEs play a key part in how the Chinese market is organised (Hofman et al., 2017). With a combined focus on a harmonious society and economic growth, SASAC issued the first CSR guidelines in 2008.

<sup>13</sup> Apart from the nine CSR managers, the 13 senior executives and five senior staff were well-informed of and involved in the decision-making processes related to CSR and its reporting. Prior to our interviews, we contacted each company and asked if we could speak to senior managers responsible for CSR and its reporting and those who took an active role in the process.

<sup>14</sup> See Endnote 16.

<sup>15</sup> The abbreviation stands for the interviewee code that can be found in Table 1.

<sup>16</sup> M4 was the only interviewee who implicitly alluded to labour practices (without making any explicit references to labour practices or human rights).

<sup>17</sup> For the Chinese companies to bring their CSR to the level required by their foreign customers, they needed knowledge they lacked. To compensate for this lack of knowledge, the sampled companies collaborated closely with European peers (in their industry).

<sup>18</sup> Examples of environmental-related issues include product safety, energy consumption, energy saving, recycling, resource consumption, and pollution.

<sup>19</sup> The Iron bowl policy was applied in the original version of SOEs during the centrally planned economic period in China between the 1950s and 1980s. According to this policy, SOEs provided all employees and their descendants with guaranteed employment, education, pension, housing, lifelong welfare, medical care, and so on, and every employee was treated equally.

<sup>20</sup> Non-profit organisations.

<sup>21</sup> Over time, the Chinese government has delegated specific responsibilities to social organisations (e.g. poverty reduction, customer rights protection, ecological environmental protection, and biodiversity conservations) (Wang, 2001; Zhao, 2001; Li, 2012). Because social organisations are often directly formed and subsidised by the government, their identity is characterised as semi-governmental units that are expected to act in favour of, or at least not against, the government's

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interest (Hildebrandt, 2013; He, 2016). In other words, they do not have the freedom and independence to proactively monitor the government's performance. Therefore, they must refrain from taking action against the government's undesirable behaviours, because these activities are viewed by the government as a challenge/threat to the legitimacy of its political ideology and advocacy of a harmonious society/world (Li, 2012; Hildebrandt, 2013); as a result, such activities are not tolerated (see note 3).

<sup>22</sup> <https://www.wsj.com/articles/china-set-to-report-plunge-in-first-quarter-gdp-11587086697>. (Accessed on 23/04/2020).