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Corporate Social Responsibility in Chinese state owned enterprises

An analysis of CSR practices among China's largest SOEs

Master Thesis

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Abstract

The interest in Corporate Social Responsibility (CSR) has grown tremendously within the last decades. Due to the pressure from different stakeholders, this concept was introduced by multinational corporations (MNC) in China. Since the strong focus on economic growth has been determining the way of doing business, environmental and social concerns were not taken into account appropriately. Since MNCs started to demand the implementation of CSR standards in their supply chains, China entered the World Trade Organization (WTO) and the Chinese Communist Party (CCP) started to set social and environmental problems on top of the agenda, CSR is becoming more prevalent in China. Very little literature examines the CSR activities of SOEs and their special role in China's economic development makes them a research object of great interest. Therefore the aim of this thesis is to analyze the CSR activities of the largest state owned enterprises (SOE) in China since 2005.

In order to undertake this analysis, an index which is including different CSR related indicators will be introduced to assess CSR practices of the SOEs. The results of qualitative research on site in China will be integrated as well.

This thesis is concluding that since 2005 Chinese SOEs became more aware of CSR and their activities in this field increased which is likely to be caused by the new policy guidelines of the government. SOEs are increasingly engaged in multi stakeholder initiatives such as the Global Compact (GC), the World Business Council for Sustainable Development (WBCSD) and others. Especially CSR reporting became more prevalent, but is still far beyond international peers due to the low quality of the reports and limited adaptation of existing international standards. Besides these findings, the thesis is showing the need for a more sophisticated comparative method in order to analyze CSR objectives.

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Abbreviations

| | |
|-------|--|
| CBCSD | Chinese Business Council for Sustainable Development |
| CBRC | China Banking Regulatory Commission |
| CC | Corporate Citizenship |
| CCP | Chinese Communist Party |
| CNOOC | China National Oil & Petroleum Corporation |
| CNTAC | China National Textile and Apparel Council |
| COFCO | China National Cereals, Oils and Foodstuffs Corporation |
| COSCO | China Ocean Shipping Corporation |
| CSP | Corporate Social Performance |
| CSR | Corporate Social Responsibility |
| DJSI | Dow Jones Sustainability Index |
| ESI | Ethibel Sustainability Index |
| GRI | Global Reporting Initiative |
| GTZ | Gesellschaft für technische Zusammenarbeit und Entwicklung |
| ISO | International Standardization Organization |
| MNC | Multinational Company |
| NGO | Nongovernmental Organization |
| OHSAS | Occupational Health and Safety Management System |
| PRC | People's Republic of China |
| SASAC | State Assets Supervision and Administration Commission |
| SOE | State Owned Enterprise |
| SRI | Socially Responsible Investment |
| SSE | Shanghai Stock Exchange |
| SSZE | Shenzhen Stock Exchange |

| | |
|--------|--|
| UN | United Nations |
| UNEP | United Nations Environment Program |
| WBCSD | World Business Council for Sustainable Development |
| WTO | World Trade Organization |
| UNWCED | World Commission on Environment and Development |

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1. Introduction

1.1 Research problem

In the aftermath of numerous corporate scandals within the last decades, the social responsibility of business became a matter of growing attention and critique (Carroll & Buchholtz; 2006, p. 187, Windell; 2006, p. 2). Stakeholders started demanding more engagement of the private sector (Levis; 2006). In line with global economic development, Corporate Social Responsibility (CSR), stating that businesses have obligations to society besides short term profit maximization and obeying the laws, gained increasing importance among various societal actors. (The Economist; 2008, Hopkins; 2007, p. 129, Windell; 2006, p. 2).

After decades of strong economic growth, accompanied by environmental degradation, social inequality and lax labor standards, China can be regarded as the new frontier for the CSR industry (The Economist; 2008, p. 19). Foreign investors and MNCs want to apply their ethical standards while Chinese companies have begun to realize that they have to consider CSR in order to gain international acceptance and build their brand (The Economist; 2008, p. 19). Furthermore the need to address social and environmental problems has become a topic on the government's agenda (Rothman; 2008) and policy guidelines have been released, encouraging businesses to engage in CSR (GTZ; 2007, p. 32). In this context, SOEs are an important object of research for several reasons. SOEs were the main providers of social security in the planned economy before the market orientation started. Social responsibility for millions of people has been a central role for them. When the pressure to become profitable emerged and the SOEs started facing the market, their social responsibilities were reduced massively and during the restructuring process millions of workers were laid off (Naughton; 2006, p. 185). Furthermore Chinese SOEs have been the worst polluters among all Chinese companies (Wang & Jin; 2007, p. 271). The focus on profits has been consequently implemented in the SOEs and a massive transformation into shareholding corporations took place (Zu; 2009, p. 2). After stripping off all their social responsibilities, the government is now officially expecting these corporations to impose CSR and take over more social responsibilities again. Therefore the question emerges, how CSR engagement of SOEs developed since 2005, the starting point of the demand for CSR by the government. Through analyzing the CSR activities of SOEs it becomes possible to provide evidence for the

advancement of CSR activities in these corporations. It is also determining the effectiveness of the implementation of government guidelines for CSR in their role as stakeholders. Even though the SOEs are still playing an important role in China's economic and social development, little literature examines the situation of SOEs regarding their CSR engagement.

1.2 Statement of purpose

The aim of this thesis is to analyze the CSR engagement of Chinese SOEs since 2005. The research is focused on the development of CSR among the largest SOEs. Therefore only the corporations have been chosen which are represented in the Fortune 500 list, which is annually announcing the 500 largest companies worldwide regarding revenue. This will be primarily examined by using an index which is containing various indicators such as CSR reporting, international ratings, national rankings, memberships and certifications in order to verify their engagement in CSR. Furthermore a minor field study was conducted in China in order to gain deeper insights and information of the Chinese CSR situation on site through the interview of subject experts and practitioners. The results from this field study will be integrated into the thesis as well.

The current research concerning CSR engagement of SOEs in China remains limited. Various articles focus on how to integrate CSR into a company's strategy and how to deal with stakeholders. While numerous management articles can be found, very little economic literature on this topic exists. The development of CSR in Chinese companies is not sufficiently represented and the fast development and dynamic in this field calls for more research on the development of CSR in China. Therefore this thesis will contribute to the research on Chinese SOEs with a focus on their CSR activities while tracing the development from 2005 through introducing a comparative framework to assess CSR activities. This thesis is based on the assumption that the government is the key driver of CSR in Chinese SOEs. Therefore, stakeholder theory and institutional economics provide a theoretical background for the analysis. This thesis will show how CSR initiatives of the largest Chinese SOEs have developed since the government began placing greater emphasis on CSR in 2005. Therefore the following research questions will be answered in this thesis.

- How diffused has CSR become among Chinese SOEs since 2005?
- Which CSR initiatives are the most prevalent?
- How widespread is CSR reporting within SOEs?

- How is their CSR reporting compared to the leading Fortune 250 companies?

1.3 Limitations

As an instrument to compare corporations concerning their CSR activities, this thesis faces several limitations. The primary restriction is one that most economic papers face when dealing with China and that is being able to determine the veracity of the information used for analysis. As the data collection for this survey was limited to publicly available information only with a primary amount being provided through company and CSR relevant websites, the reliability of the data and the completeness of information might be affected. Therefore additional information concerning different Socially Responsible Investment (SRI) ratings could not be integrated either. Additionally, due to the extreme fluidity of China's economic development and because a large portion of the information was found in online databases, the data used is subject to constant change and certain findings are only valid for the specified timeframe. Another limitation comes in that industry specific data is not considered, since this would have made the data non-comparative. Finally, it should also be noted that direct measures such as carbon emissions, working conditions or similar measures were not considered as indicators as this would have been highly industry related and therefore affected the comparability.

Within the qualitative analysis limitations evolve as well. As a portion of the information was obtained through the conduction of interviews, it should always be noted that interviews and qualitative studies often reflect the subjective position and opinion of the interviewee rather than an objective truth. Subjective judgments can never be fully excluded and result in a certain bias. In addition conversations with interviewees from different countries and backgrounds might involve cultural barriers between the interviewer and the interviewee. Shared statements can be misunderstood due to the cultural background or language.

1.4 Disposition of the thesis

At first the theoretical framework will explain the concept of CSR and related perspectives. Furthermore an introduction to different ways of measuring CSR related objectives will be provided. The background section (section 3) will address the Chinese environment definition and development for CSR, before the methodology part in section 4 will focus on the framework for the analysis of the Chinese SOEs in section 5. The conclusion in section 6 will

sum up the findings and implications. The final remarks will add some limitations, initial points for discussion and an outlook.

2. Theoretical framework

2.1 Corporate Social Responsibility

2.1.1 Introduction

CSR includes a complex understanding of the relationships between business and stakeholders. Differing perceptions and definitions have occurred over the last few decades. Even though this topic is highly discussed in social- and business sciences, no common definition exists. Decades ago, CSR was predominantly regarded as separated from other business objectives. While respecting the law in order to keep its license to operate, increasing profits were mostly perceived as the company's only obligation. Meeting the shareholder's expectations without considering other stakeholder's interests used to have the highest priority. Milton Friedman stated that: "There is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud" (Friedman; 1970).

This view on CSR became less popular in recent times. Social and environmental considerations have been gaining increased importance as part of the business strategy (Kotler et al., 2005) beyond short term profit maximization. In this era of globalization CSR has become a topic of major importance. With global supply chains and multinational companies operating worldwide, consumers, non-governmental organizations, the media and governments have become increasingly vigilant. Expectations for companies to contribute to society and the environment increased tremendously.

Since the term Corporate Social Responsibility is lacking a precise definition which is commonly agreed on, it is open for interpretation (Campbell; 2006). When debates occur on its importance in strategy formulation and stakeholder management, it can become increasingly obfuscated (Wan et al.; 2005). Dahlsrud (2006) after analyzing 37 definitions between 1980 and 2003 concludes that all of them are referring to five dimensions. These are environmental, social, economic, stakeholder related and voluntariness. These dimensions

cause the varying definitions to become predominantly congruent and the lack of one universal definition becomes less problematic. Still the content is varying due to different cultures, societal norms and trends (Snider et al; 2003, Garriga & Mele; 2004). In business and social science literature the following definitions demonstrated in table 1 are common.

Table 1 Common CSR definitions

| Organization | CSR Definition |
|--|---|
| World Business Council for Sustainable Development | "...the continuing commitment by business to contribute to economic development while improving the quality of life of the workforce and their families as well as of the community and society at large" (WBCSD; 1999, p. 6) |
| The European Commission | "a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis" (Commission of the European communities; 2002) |
| UK Government | "CSR is about how business takes account of its economic, social and environmental impacts in the way it operates-maximizing the benefits and minimizing the downsides. CSR is the voluntary actions that business can take, over and above compliance with minimum legal requirements, to address both its own competitive interests and the interests of wider society. (Yang, 2008) |

In this thesis, CSR will be regarded in the sense of Carrol (1991), who divides the content of CSR into economic, legal, ethical and philanthropic responsibilities which are assigned to the companies by society. According to him the main purpose and foundation of businesses is to make profit by providing products and services to its customers. This must be done in a way which respects the laws of the country where the business is active. Beyond compliance, ethical behavior is the next necessity in order to act responsibly, followed by being a good corporate citizen which includes philanthropy. This definition shows that CSR is only voluntary to a certain degree, since making profit and following the rules of the game is

obligatory for a business in order to maintain its license to operate (Carrol & Buchholtz; 2006; 33). Some academics use the term “Corporate Citizenship” as a synonym for CSR (Carroll; 1998), while others interpret it as part of CSR which is related to the impact on the local community and philanthropy (Loew et al.; 2004, p. 10).

All mentioned CSR definitions are showing the central characteristics found by Dahlsrud (2006). CSR activities go beyond profitability and compliance with the law. Therefore they need to be included voluntarily within the business activities, coinciding with the needs of stakeholders, in addressing social, environmental and economic issues.

2.1.2 Sustainable Development

CSR is often linked to the concept of sustainable development which became very popular since the 1990's. This term was coined by the Brundtland report which defined it as "[...] development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (UNWCED; 1987, p. 8). While it used to be seen as an ecological concept focusing on the environment only, it was extended by adding economic and social values as well (Crane & Matten; 2004, p. 24). Therefore it is often referred to as the triple bottom line model which states that sustainable growth is best achieved by taking economic, social and environmental values into account (Elkington; 1994). The main difference to CSR is that it focuses per definition on the following generations. In the literature sustainable development and the term sustainability are used interchangeably. In this thesis the term sustainability will be used, referring to the definition of sustainable development as well.

2.2 Classical view

The classical view on CSR is based on neoclassical economic theory. This perspective regards CSR in profit making terms. It concentrates on the shareholders only, who are the owners of the corporation. Because of this, managers do not have the right to spend the corporation's resources to follow social goals which are not connected to profit maximization (Branco & Rodrigues; 2007). Lantos (2001) identified the “pure profit-making view” and the “constrained profit making view” as the two main approaches within the classical view. The first one is coined by Carr (1968), who stated that a certain degree of dishonesty and deception is appropriate for a successful business in order to meet the interests of its shareholders. Therefore business people should not be driven by ethics but rather respect the

law. The “constrained profit making view” can be regarded as more moderate. Branco & Rodrigues (2007) provided the example of Milton Friedman's (1970) opinion on CSR for this perspective. He stated that the company should focus on maximizing the shareholder's profits only by staying within the rules of the game without engaging in any deception or fraud. So besides the constraints set by the law, a certain code of honesty should be followed as well. Nevertheless, CSR is seen in both views as not profit generating and therefore as defalcation of the shareholder's funds. In line with this view, CSR leads to inefficient resource allocation (Henderson; 2005), which is reducing the company's performance. Therefore inefficient markets and reduced wealth generation are a consequence of CSR activities. On the other hand many authors do not see CSR as conflicting with shareholder value creation (Branco & Rodriguez; 2007). Jensen (2001; p.11) argues that manager's decisions which are focused on shareholder value are enhancing the outcomes for multiple stakeholders as well. Furthermore he states that value maximization is not possible if important stakeholders are ignored or mistreated. According to McWilliams & Siegel (2001; p. 125) CSR should be treated by the management just like other investment decisions.

2.3 Stakeholder view

Carroll (1991; p. 43) states that there is a natural fit between the idea of CSR and an organization's stakeholders. Per definition a stakeholder of a corporation is an individual or group which is either harmed or benefits from a company's activities (Freeman; 1998, p. 174). Besides shareholders, this also includes suppliers, employees, customers, the public sector, media, community, activist groups, creditors and the general public. In opposition to the classical view which focuses exclusively on shareholders, this view is more sensitive to other groups and considers their interests as well, “Stakeholder theory asserts that companies have a social responsibility that requires them to consider the interests of all parties affected by their action”(Branco & Rodriguez; 2007). Therefore, not only the shareholders, but other stakeholders shall benefit from company's activities as well, “[...] the goal of any company is or should be the flourishing of the company and all its principal stakeholders” (Werhane & Freeman; 1999, p. 8). Furthermore, Freeman et al. (2004) do not regard the shareholder view as opposing the stakeholder view, since it can be seen as a part of the stakeholder theory. In addition the stakeholder theory contends that a firm's value depends on the cost of explicit and implicit claims. Irresponsible action by a firm can lead parties may attempt to transform

existent implicit agreements into explicit agreements which are causing more costs (Cornell & Shapiro; 1987).

While many different typologies of stakeholders emerged, Clarkson's (1995) is the most accepted (Branco & Rodriguez; 2007). He differentiates between primary and secondary stakeholders. The first group is essential for the survival of a company, involving shareholders, investors, employees, customers, suppliers, government and communities. The secondary group contains stakeholders, who are affecting or are affected by the company and are not involved in any transactions with the company.

Stakeholder theory can be used in three different ways according to Donaldson & Preston (1995). First, it can be used in a descriptive and empirical way in order to describe and explain corporate behaviors and characteristics. Second, it can be used in an instrumental way, to identify connections or its absence between stakeholder management and achievement of corporate goals. Third, it can be used in a normative way, to interpret the functions of companies and identifying moral guidelines which shall be followed in their business operations.

However, if the company needs to focus on its stakeholders, the question arises how managers decide, which stakeholders the most significant are? According to Mitchel et al. (1997) three major attributes impact the manager's perception of the stakeholder's importance. He identified the power to influence the company, legitimacy of the relationship of the company and urgency of the claim on the company. Since power is needed to enforce any claim, it can be regarded as the most important attribute to get the manager's response (Branco & Rodrigues; 2007). Nevertheless, stakeholder theory has gradually moved into the center of business and society relations with the release of numerous studies. It has been linked to different economic theories, such as principal-agent theory, team production theory and transaction cost economics and has emerged as the dominant paradigm in CSR (L.Zu.; 2009, p.28).

2.4 Motivation for CSR

Basically there are two main arguments for companies to engage in CSR activities which are either ethical or instrumental (Branco & Rodriguez 2007). According to them, ethical reasons are determined by social norms, religious principles or philosophical references. CSR therefore is an issue because it is morally correct to behave in a responsible way. While this approach can be regarded as normative, the business case looks at CSR from an instrumental

perspective only. Therefore assumptions and calculations are made, how CSR can benefit the company. Smith (2003; p. 53) states that besides the normative case and the business case which can be clearly distinguished, mixtures of both perspectives can emerge as well.

However, Maignan and Ralston (2002, p. 498) include a focus on the stakeholders as well and identified three different types of motivations for CSR engagement:

1. Value driven: The main motivation for CSR is the expression of the company's values and culture of which CSR is a part.
2. Performance driven: CSR is seen as an instrument on the company's economic mission in order to achieve financial performance.
3. Stakeholder driven: CSR is a response to the demand and pressure of certain stakeholder groups.

While the ethical perspective is presented by many companies as CSR driver, such rhetoric is often no more than risk management in reality (Economist, 2008).

CSR is helping to avoid trouble, scandals and consumer boycotts which might occur due to questionable business practices. Furthermore it can increase the brand value (Holding; 2007) and attracts human capital, "HR leaders are increasingly assuming leadership roles to address two areas where CSR influences a company's competitive advantage most, company reputation and brand and human capital" (Valentino; 2007).

In addition CSR makes corporations less vulnerable to new legislations regarding social and environmental regulations, since the company is likely to meet new demands already (Interview; 27.4.2009). If a firm fails to meet the requirements of government officials, concerning action that affect workers and other stakeholders, government agencies may decide to tightening regulations and force the company to act more responsibly (Cornell & Shapiro; 1987).

However, this view of gaining competitive advantages, innovation and growth by engaging in CSR is becoming increasingly popular and a clear motivation which goes beyond risk management only (The Economist; 2008). Nevertheless companies are more likely to engage in CSR if they believe it pays off (Graafland; 2002). Different studies show different results regarding the impact of CSR on performance. While Orlitzky et al. (2003) found a high positive correlation between Corporate Social Performance (CSP) and Corporate Financial Performance (CFP), de Bakker et al. (2007; p. 78) argue that this relation cannot be fully supported yet, due to problems in measuring the costs and the benefits.

2.5 Measuring CSR

2.5.1 Corporate Social Performance

As a result of CSR, Corporate Social Performance has been introduced, which is defined as “[...] a business organization's configuration of principles of social responsibility, processes of social responsiveness, and policies, programs, and observable outcomes as they relate to the firm's societal relationships” (Wood; 1991). She describes CSP as outcome of CSR and Corporate Social Responsiveness, which is “[...] the capacity of a corporation to respond to social pressures” (Wood; 1991).

2.5.2 Measuring instruments

The last decade brought new development for CSR with a continuing drive to quantify CSR (de Bakker et al.; 2007, p. 149). Many attempts have been made to measure the results of CSR. However social aspects remain “soft” and very hard to quantify, even though the literature on this matter is constantly growing. So far no commonly accepted method has been established but approaches emerged in order to measure CSR. Wolfe & Aupperle (1991) pointed out that there is no single best way for measuring corporate social activities and their outcome. Besides describing the difficulties in measuring CSP, Waddock & Graves (1997) assessed different methods, such as reputation indices, case studies, content analysis, behavioral and perceptual measures and forced-choice survey instruments. These alternatives were distinguished by Maignan and Ferrel (2000) into expert evaluations, single- and multiple issue indicators and manager surveys. Turker (2008) expands the latter and identifies reputation indices, databases, single- and multiple-issue indicators, content analysis of corporate publications, scales measuring CSR at the individual level and scales at the organizational level as viable to measure CSR.

2.5.3 Difficulties

Nevertheless, all of these approaches cover different dimensions of CSR and have certain limitations. The reputation indices only cover a limited number of countries while single and multiple issue indicators are limited by undimensionality (Maignan & Ferrell; 2000) and cannot cover the entire structure of CSR (Turker, 2009). Content analysis is highly dependent on the reliability of corporate information. McGuire et al (1988) showed that corporate actions often differ massively from their information in corporate reports. Ingram and Frazier

(1980) found that poor performers disclosed the longest environmental reports. Scales measuring individual perceptions of CSR are widely used and probably the most serious attempt to catch the multidimensional nature of it (Ruf et al.; 1998). However, these are not suitable for the organizational level (Turker; 2009). The rise of CSR was accompanied by the demand for socially responsible investments (SRI) which has been driving the development of methods to assess CSR. Therefore many different rating systems used by banks and rating agencies emerged in order to construct indices with socially and environmentally responsible companies. Schäfer et al. (2006, p. 111) provides a list of 37 different CSR rating institutions which are using different methodologies to assess SRI. However, the literature shows many ways of measuring CSP but due to the difficulties and the numerous limitations, there currently exists no commonly accepted way.

2.5.4 Standardization

CSR is a global concept which is rooted in the Western economies. However it is following international management trends. Therefore it is branded and standardized in packages like the UN Global Compact, SA 8000, The Global Reporting (GRI) Initiative and ISO standards (Sahlin-Andersson; 2006). These initiatives are crucial in order to establish a common international understanding of CSR and sustainability. However developing a globally accepted, consistent framework which integrates different standards is a challenging, time consuming task. In 2010 the release of ISO 26000, which is an international standard providing guidelines for social responsibility (SR), is expected (ISO; 2008).

3. CSR in China

3.1 Environment for CSR in China

Even though poverty declined massively due to the rapid economic development, numerous problems are on the agenda as well. A rapidly ageing population as consequence of the one child policy, demographic imbalances, migration into urban centers, environmental degradation, inequalities and social unrest are challenges the country is facing (Worldfactbook; 2009). The disparities in income, education and life expectancy are immense. About 35 percent of the urban workforce is informally employed and does not have any social security or insurance, which remains a big problem (Grassi; 2008, p. 142). Furthermore the country remains highly corrupted (Transparency International; 2008).

Besides social and economic challenges, China has to deal with massive environmental damages as consequence of the economic growth. Derogation of the natural resource base, land degradation, deteriorating water quality and water scarcity, air pollution and declining natural forest cover (Worldbank; 2009) became major problems.

“It has become clear that policy-makers today face the dual challenge of advancing the transition process while also cushioning the impact of changes that have increased inequality and reduced economic security.” (Naughton; 2006, p. 108). Therefore the government is working on strengthening the social safety net, reforming the pension and health system in order to counteract the high domestic savings rate and encouraging domestic demand. Numerous laws were already released such as the environmental law (1989), the labor law (2004), the company law (2006) and the labor contract law (2008) which are providing the basic rules concerning environmental and social issues. Even though strong minimum standards exist on paper, enforcement of these laws remains a problem. “[...]local governments in many cases have no incentive to enforce national regulations, and they may have powerful incentives to violate them” (Naughton; 2006, p. 411). Therefore the encouragement of CSR is also seen as a way to foster the motivation for companies to show compliance with these laws (Schoenheit; 2007).

3.2 The Chinese definition of CSR

Yi Xiaozhuan, China's Assistant Minister of Commerce explained the Chinese CSR concept as "...a concrete action taken by Chinese companies to implement the political aspiration of the new Communist Party collective leadership - putting people first to create a harmonious society". (Ethical Corporation; 2005). This definition left out the components of western CSR understanding, which involves other stakeholders, such as the media, consumers, civil society, NGOs and others. Furthermore it stresses the control of the Communist Party and tries to embed it into the Confucian tradition (Habich; 2008, p. 36). The SASAC includes profitability and stakeholders in its definition as well and presents an approach which is more in line with the western understanding. It defines the key contents of CSR in a broader sense as operate with legal compliance and integrity, continuously improve profitability, improve product and service quality, save energy and protect the environment, push forward self-innovation and technology development, ensure product safety, protect labor rights and the interests of workers and engage in philanthropic activity (Syntao; 2008).

3.3 Harmonious Society

In 2005 China's president Hu Jintao declared that the country should construct a "Harmonious Society". This guiding principle aims at bettering the conditions for disadvantaged groups through incorporating the rule of law, order and a balance between the needs of humanity and nature (GTZ; 2007). It is a widely publicized socio-economic goal to provide a favorable environment to encourage CSR development (Yang; 2008), which became the official policy of the Chinese Communist Party (CCP). Woo (2006) states that this campaign was introduced in order to address the environmental and social problems which emerged as consequence of the rapid economic growth. Since these problems cause social instability which threatens the CCP's political position, the harmonious society became a top national priority. This effort to achieve sustainable growth will have "...a profound impact on government spending and regulatory policy- and thus the Chinese economy and investment environment- over the next five years." (Rothman; 2008). There is no question that Harmonious Society affects the development of CSR in China (See; 2008). "CSR is increasingly regarded as a component in building a harmonious society, which is China's current dominant social-economic ideology." (Zu; 2009, p. 47). Within this context, numerous CSR investigation committees to study the CSR development emerged and various government bodies started to develop a more positive attitude and finally encouraging CSR (Zu; 2009, p. 48).

3.4 The development of CSR in China

The development of CSR in China can be divided into three different phases. A special focus is given to the SOE's development

3.4.1 First stage of development (before 1978)

Before the reforms started, all companies were part of the government apparatus in the planned economy. Besides production the SOEs were responsible to provide lifelong employment for their employees, emphasizing their social responsibility. Furthermore, the companies built a part of the public administration and provided to a certain degree social security and education (Wolf; 2007). "As the prototypical urban work unit (danwei), SOEs were responsible for the welfare, health, and political indoctrination of their workers" (Naughton; 2006, p. 300). Companies even built hospitals, schools and provided shopping

opportunities (He; 2006, p. 24). The SOEs were the core of the command economy with numerous responsibilities, except the need to be profitable soft budget constraints led to low efficiency and productivity of the whole economy. While the companies were not allowed to make their own decision since the plan made the guidelines, providing social responsibility was one of their major duties during this period. "Managers had little flexibility and low rewards, and they were required to fulfill plan targets and carry out numerous other commands given by various parts of the bureaucracy" (Naughton; 2006, p. 300). Jobs were provided for all but many meaningless and poor salaries were paid as well. The SOE's social responsibility was a central aspect of China's development in the planned economy. Nevertheless the burden was immense and limited their abilities to make profits.

3.4.2 Second stage of development (1978-2000)

After 1978 when the economic system started to change, the relation between state and companies became different. Gradual privatization and a more incentive driven economy led to disengagement in providing social security. The companies had to start focusing on profits while rising productivity and competition was highly encouraged by the state. The new economic conditions overburdened many of these companies, which had to face market conditions and competition for the first time. Budget constraints were hardened and the total number of industrial SOEs decreased massively from 120 000 in the mid-1990s to only 31 750 in 2004 (Naughton; 2006, p. 314). "[...] from 1993 through 2003, an official count of 28.8 million state enterprise workers were laid off" (Zu; 2009, p. 4). It is obvious that this new profit orientation had a major impact on society and communities. With the initiated institutional change to converse the SOEs into public corporations in order to achieve profitability, the surviving SOEs gained access to more capital through the listing on stock exchanges (Opper et al.; 2007). With the company law (1994) organizational standards were introduced which were modeled after the western example of Corporate governance (Opper et al.; 2007). The CEO and the board of director's started becoming the decision makers in the companies (Wong et al.; 2004). Economic growth and competitiveness was the main goal of the reforms, while environmental and social concerns were secondary. The consequences were unemployment, increasing pollution of wider areas and rising inequality (He; 2006, p. 26). Zu (2009, p. 3) states that the restructuring caused a systemic erosion of labor interests. Ruthless labor rights abuse, deprivation of benefits and brutal working conditions occurred due to the new market orientation, combined with a lack of state protection and emerged

despotic managerial power (Lee; 1999). Many of the SOEs which were high polluting and offered low wages combined with minimal health and safety standards have been highly profitable (Young & McRae; 2002). As Zu states (2009, p. 47) “[...] the more profits people are making, the less social responsibility they are assuming.”

It can be stated that with this transformation and the new corporate governance approach, the “pure profit-making view” in the sense of Lantos (2001) was common among SOE's managers. Therefore social responsibilities were regarded as costs which had to be cut.

3.4.3 Third stage of development(after 2000)

The third stage began around 2000 when the media, NGOs, academics and foreign consumers started to take up the idea of CSR, especially after China became a WTO member and MNC's started expanding their businesses in China. Attention in western societies emerged regarding business practices of multinationals in China. The demand for compliance, better working conditions and environmental responsibility started to rise. After this started in the toy factories of the southeastern coastal cities, where a lot of export oriented MNCs have been based, the CSR concept became common in other industries and provinces as well (Habich; 2008). Extensive research and studies by Chinese academic institutions, NGOs and international organizations in China created more awareness as well. CSR was perceived in the first place as a trade barrier erected by the United States to weaken China's economic power (Habich; 2008, p. 35, He; 2007). Especially the introduction of the social standard SA 8000 which is mainly focused on suppliers in the apparel and textile industry led to common resistance. Many suppliers started complaining about the new pressure put on them by the MNCs which introduced their CSR standards in their supply chains. Trade authorities started showing deep concerns about the social development and the effect this might have on foreign trade and called on all interest parties to adopt CSR principles to avoid the potential negative impact on their exports (Zu; 2009). With the WTO membership and Chinese companies facing more global competition, the demand for CSR increased as well (He; 2006, p. 26). CSR then became an element of the CCP's policy in order to balance the relationships between different economic groups (Pullam; 2006). Therefore CSR is a highly discussed topic (Qingfeng; 2006) in recent times, encouraged and promoted by the CCP with various initiatives by different bodies of the government (GTZ; 2008, p. 6). The latest CSR survey conducted by Fortune China in March 2009, which asked 20 000 decision makers in business and government about their opinion regarding CSR found that 56 percent, compared to 49

percent in the year before, stated that “CSR is a trend that is here to stay in China” (Zadek; 2009).

4. Methodology

From May until July 2009, the publicly available (online) corporate social responsibility activities of the 30 largest Chinese SOEs according to the Fortune 500 were conducted with the aim of finding out, what kind of CSR activities were practiced between 2005 and 2009. First, background information concerning the modeling approach will be provided, followed by the selection of the indicators and their introduction. Furthermore the differentiation between result oriented and process oriented indicators will be emphasized. The calculation and the validity will be explained at the end of the first part. The second part includes the generation of additional qualitative information gained in the minor field study.

4.1 Measuring CSR practice

Measuring CSR practice and its performance is highly discussed in the literature and there are numerous ways of methods to approach this topic. None of them is commonly accepted yet. Székely & Knirsch (2005) find that a major challenge for future investigation is how to convert sustainability parameters into quantifiable indicators. They identified several approaches to assess a company's performance towards sustainability, such as surveys, award schemes, investor's criteria, benchmarking, sustainability indexes, external communication tools, accreditation processes, standards and codes, sustainability indicators, metrics for sustainability performance and non quantifiable sustainability initiatives. This emphasizes the huge variety and dimensions of measuring the impact of CSR. In order to analyze the CSR practices and performance, Gjølborg (2009) constructed an index by using a formative measurement model for a comparison of different countries. This index will be modified for the Chinese context and applied for analyzing and comparing the largest Chinese SOEs of different industries.

4.1.1 Formative measurement model

Since no definition of CSR is providing suitable measures for the outcomes of CSR activities and a lack of comparable data on the company level discourages a suitable comparison, this

alternative approach by choosing a formative measurement model will be applied in this thesis to compare Chinese SOEs concerning their CSR activities.

In a formative measurement model, the combination of chosen indicators determine the empirical and conceptual meaning of the construct (Jarvis, MacKenzie & Podsakoff, 2003). Nevertheless it is not an attempt to measure CSP. Therefore the term CSR practice is used in order to emphasize that the index is measuring broader corporate activities and practices in the CSR field, including performance indicators as well (Gjøølberg; 2009).

Proxies for CSR practices in a broader sense are building this index. These include sustainability reporting, corporate adoption, qualification and membership in CSR organizations and networks, certification practices, and rankings of CSR performance. The most prominent CSR initiatives define CSR in order to create this index.

A correlation between the indicators can be positive, negative or zero (Diamantopoulus et al; 2008). "Reliability in an internal consistency sense is not meaningful to formative indicators". (Diamantopoulus et al.; 2008). The role of criterion-related and nomological validity is more important (Jarvis et al.; 2003). Therefore a factor analysis and the usage of Cronbach's Alpha which are appropriate measures to evaluate the validity of indexes is not used here, since it is not built on a reflexive measurement model.

4.1.2 Selection of the indicators

All CSR initiatives which are open for Chinese companies were considered to become an indicator in order to build this index. However, the following criteria led to the final selection. First, the used indicator must be related to CSR by covering environmental or social activities. Second, the indicator must have a general application. Therefore international and national initiatives and rankings were included. Regional, industry specific or sector related initiatives and rankings were not considered due to the lack of comparability among different industries. All companies in the sample must have the opportunity to take part in the activities. Third, the indicator must involve a minimum of 50 companies. Fourth, reliable and comparable data must be publicly available at company level.

12 CSR indicators could be identified which fit these requirements. These are divided into four broad categories, based on the index by Gjøølberg (2009) as shown in table 2:

Table 2 Indicators determining the CSR practice index

| Category | Indicators in the CSR Index |
|---|---|
| Ratings based on social investment criteria and CSR performance | Dow Jones Sustainability Index (DJSI) Dow Jones Sustainability Asia Pacific Index Global 100 most sustainable corporations Hurun ranking |
| Membership in CSR initiatives | UN Global Compact World Business Council for Sustainable Development Chinese Business Council for Sustainable Development |
| CSR reporting practices | Releasing CSR report Using GRI guidelines Report audited by third party |
| Certification Schemes | ISO14001 OHSAS 18001 |

Source: Own data, based on Gjølborg, 2009

4.1.2.1 Ratings based on social investment criteria and CSR performance

In order to introduce this index and the indicators which are determining the construct, a short explanation of the each indicator will be provided.

4.1.2.2 Dow Jones Sustainability Index (DJSI)

The DJSI World includes the top 10 percent of the highest performing companies in the field of sustainability which are represented in the DJSI World investable stocks universe (SAM; 2006). The evaluation of their sustainability performance is based on the corporate sustainability assessment by the SAM group, based on economic, environmental and social criteria. The SAM group is an investment group which is focusing on sustainable investments.

4.1.2.3 Dow Jones Sustainability Asia Pacific Index

This index is based on the same method like the DJSI World, only including the top 20 percent of the leading sustainability companies in each of the DJSI sectors within the DJSI Asia Pacific investable universe.

4.1.2.4 Global 100

The Global 100 is announced annually at the World Economic Forum in Davos by the Canadian magazine "Corporate Knights" in cooperation with Innovest Strategic Advisors. It

represents the 100 most sustainable, publicly-traded, MSCI World-listed companies. The list is based on the research and analysis by Innovest Strategic Partners, using 71 categories to assess ESG risk and opportunity management to identify the category leaders (Corporate Knights; 2009).

4.1.2.5 Hurun CSR ranking

The Chinese Hurun magazine annually publishes a CSR listing of the top 50 companies in China. This list is based on the CSR performance of the companies which is measured by using four different equally weighted criteria. CSR leadership including transparency is integrated. Furthermore taxes paid and number of employees is one criteria along with charitable donations. Employee management and damage to the environment are crucial for the ranking as well (Hurun; 2009).

4.1.2.6 Ethibel sustainability index (ESI)

The ESI provides a comprehensive perspective on the financial performance of the world's leading companies in terms of sustainability. The evaluation is based on internal social policy, environmental policy, external social policy and ethical economic policy. Furthermore certain exclusion criteria are included as well. Ethibel is an independent consultancy agency for SRI which gives advice to banks and brokers concerning ethical funds (Ethibel; 2003).

4.1.3 Membership in CSR initiatives

4.1.3.1 UN Global Compact

The Global Compact is “[...] a policy platform and a practical framework for companies that are committed to sustainability and responsible business practices. As a leadership initiative endorsed by chief executives, it seeks to align business operations and strategies everywhere with ten universally accepted principles in the areas of human rights, labor, environment and anti-corruption” (UN Global Compact; 2008). It is the world's largest sustainability and corporate citizenship initiative with more than 6700 members, including over 5200 businesses based in 130 countries. To participate, businesses need to integrate the principles into their strategy and day to day business. Furthermore an official commitment needs to be signed and an annual financial contribution depending on the company's revenue has to be paid. To stay as participant, an annual sustainability report must be released.

4.1.3.2 The World Business Council for Sustainable Development

The WBCSD is a “[...] CEO-led, global association of some 200 companies dealing exclusively with business and sustainable development” (WBCSD; 2009). It provides a platform to strengthen sustainable development, exchange knowledge and experiences and to participate in policy development. The areas of energy and climate, development, the role of business and ecosystems are defined as its focus. Membership is only possible after invitation from the executive committee. Participating companies have to release reports of their environmental performance with the goal of covering the other fields of sustainable development in their future reports as well. Personal commitment is required. Therefore CEOs have to invest time and resources in order to act as council members.

4.1.3.3 Chinese Business Council for Sustainable Development

The CBCSD is a platform for China based, government and social communities to share information, knowledge, experiences and best practices regarding sustainable development. It is focusing on business leadership, policy development and building a network among stakeholders in order to improve sustainable development. Members are required to participate actively in the network and invest time and resources though no invitation for participants is needed.

4.1.4 CSR reporting practices

4.1.4.1 Releasing a CSR report

Releasing CSR reports is an essential tool for communicating with stakeholders in order to show the capability of managing environmental and social risks and duties. Therefore a report is an important means by which stakeholders evaluate CSR performance. In addition, it is promoting the fulfillment of CSR. Especially for investors it shows the efforts in improving corporate governance and transparency. Furthermore the efficiency of corporate management is enhanced by reporting since the company is collecting information on sustainable efforts and achievements which can help to find new directions of innovation (Peiyuan; 2007). Specific measures which would facilitate comparing different companies due to their sustainability performance are not agreed on. Therefore the question if a company is releasing a CSR report or not shows already a certain awareness and commitment to CSR.

4.1.4.2 Using the GRI standard

Due to the missing standards, CSR reports are often not a balanced reflection of the company's performance but rather an overly optimistic representation (Owen; 2006, Adams & Frost; 2006). The Global Reporting framework is the most widely used sustainability reporting standard worldwide. It is a publicly available guideline for sustainability reporting, which is developed in a multi-stakeholder process by the Global Reporting Initiative in cooperation with numerous participants and organizations worldwide. GRI is a network based organization and collaborating centre of the United Nations Environment Program (UNEP). The GRI database includes the companies which are using the standard, based on self reporting and third party assurance (GRI; 2009).

4.1.4.3 Third party audit

Credibility is not given as long as the reports are not focused on material issues and assurance is given by a third party (Hubbard; 2009). Therefore a third party audit increases the trustworthiness of a corporation's report and is included as an indicator.

4.1.5 Certification Schemes

4.1.5.1 ISO 14001

The ISO 14001 is an environmental management standard developed by the International Standardization Organization, which is the world largest developer and publisher of international standards. In order to become verified of using this standard, the corporation has to be certified by a third party certification body. The management tool is applicable to every company and is focusing on improving the environmental performance of the company. It is covering the whole process from planning and setting environmental goals, implementation and monitoring (ISO; 2009).

4.1.5.2 OHSAS 18001

OHSAS 18000 is an international occupational health and safety management system specification which is focusing on risk management in the working place in order to provide safe working conditions for employees. Due to its process orientation, this standard is built in compatibility with ISO 14001 and ISO 9000 (Occupational Health & Safety Group; 2009).

4.1.6 Dimensions

Based on the research by Gjøølberg (2009) the indicators which are the basis for the CSR practice index can be divided into different dimensions. These are results oriented and process oriented initiatives with soft and hard requirements as shown in table 3.

Table 3 Dimensions of CSR initiatives

| The two dimensions of CSR initiatives | | |
|--|--|--|
| | Hard requirements | Soft requirements |
| Results oriented | DJSI DJSI Asia Pacific Index Global 100 Most Sustainable Companies Ethibel Sustainability Index | Hurun top 50 Releasing a CSR report |
| Process oriented | WBCSD CBCSD ISO 14001 OHSAS 18001 GRI third party assured | Global Compact GRI self declared |

4.1.6.1 Result oriented

The result oriented CSR initiatives measure already documented achievements by the companies, which are reflected by sustainability indexes, rankings and company information from different sources. This includes the DJSI, DJSI Asia Pacific, Global100, Ethibel Sustainability Index, Hurun list and whether the company released a CSR report or not. Since getting listed in an international CSR ranking is difficult due to global competition, these ratings are categorized as hard requirements. Getting listed in a national ranking like the Hurun list requires less effort since the screened companies are China based only. Furthermore releasing a CSR report can be regarded as soft requirement, since no certain form of reporting such as GRI standard is considered here.

4.1.6.2 Process oriented

The process oriented indicators focus on the effort for continuous improvement. This includes memberships such as in the WBCSD and the CBCSD which are emphasizing knowledge exchange to improve the members CSR initiatives. Since both require time, resources and top management involvement, it is categorized as hard requirements. To become a member in the

WBCSD it needs even an invitation. Furthermore implementing initiatives which are requiring certifications such as the environmental management guideline ISO 14001, OHSAS18001 or a third party audit are categorized as hard requirements because implementing these systems takes substantial effort.

Becoming a member of the Global Compact is not connected to comparable difficulties and therefore categorized as soft requirement. The declaration to use the GRI standard is a soft requirement as well since corporations can publish this without being checked by a third party.

4.1.7 Calculation

The index aggregates the collected data between 2005 and 2008 for every year. The logic is that 100 percent would express a representation of a company in all indicators for the four years which are regarded. This calculation is made for the result and the process oriented indicators separately. Process and result oriented indicators represent 50 percent each in the overall score.

4.1.8 Validity

The index is mixing data from different sources. It combines adoption rates, such as the UN Global Compact, WBCSD, CBCSD with rankings and performance related indexes like DJSI, Global 100 and Hurun. While most indicators are open to companies from all countries, the Hurun list and membership in the CBCSD is only representing corporations which are based in China. Every indicator represents a different understanding, interpretation and approach of CSR. According to the logic of formative measurement models, the combination of different approaches in one index represents a state of the art reflection on CSR and related practices (Gjølborg; 2009). Nevertheless capturing all dimensions of CSR or measuring CSP is not the aim of this thesis and needs more complex measurements. Also the different industry backgrounds cause different CSR needs. An oil company has to pay attention to different environmental and labor issues than a bank for instance. These could not be taken into consideration. This index is only capturing initiatives which are open to all corporations in this sample. However the index is providing useful information of the SOEs practices concerning CSR and makes a comparison among different industries possible.

4.2 The minor field study

Besides the quantitative analysis, this thesis is based on qualitative research in the form of interviews with CSR experts in China which took place between April and July 2009. The geographical concentration was focused on Shanghai and Beijing which were selected due to the high representation of companies and organizations with CSR relevance. The results of these interviews will be included mainly in section 5 and 6.

4.2.1 Selection of the interviewees

The potential interviewees were selected due to the following criteria: all of them needed to have already worked on CSR projects or must have been in a job which is related to CSR or the Chinese government. MNCs and SOEs which presented their CSR engagement on their websites were contacted as well. Besides using different search engines and China related CSR websites, potential interviewees were also identified and selected by using information from publications and articles. Furthermore the European, Swedish, American and German chamber of commerce and personal contacts provided helpful information on CSR and potential interviewees.

After the persons were identified, 53 persons were contacted (42 prior to the field study, 11 while being on location in China) by mail, including a short introduction of the topic, asking for a short interview. 18 persons responded and showed a positive attitude towards the research. Among them nine accepted the interview proposal while the others stopped answering or turned it down due to a lack of time. Finally five interviews took place, while two stopped replying and two cancelled the appointments due to a shortage of time.

4.2.2 Interview procedures

The interviews were all conducted through personal meetings with only the interviewee and the interviewer being present. All interviews except one took place at the work place of the interviewee. The atmosphere can be described by the interviewer as very open and sincere. The experience and knowledge of the interviewees was shared in a very open manner. The questionnaires were semi structured with open ended questions which mainly had the purpose of guiding the conversation and not necessarily following a given structure. The advantage of this approach was the freedom of the interviewee to add information, and provide insights of his specialization while having an open conversation. The questionnaire included general

questions regarding CSR in China, the role of the government in strengthening it on a national and local level and the CSR understanding of Chinese enterprises. In all interviews notes were taken by the interviewer. Some interviews were additionally recorded with a notebook to facilitate and capture the whole conversation. The interviewees have been granted anonymity in order to value the confidentiality of the information that has been shared throughout the interviews. When referring to the interviews within the text, only the date will be indicated. A complete list of the interviewees can be found among the list of references.

5. Analysis

5.1 Recent developments

The government is pursuing a CSR concept which is connected with the policy guidelines of “Harmonious Society” (Valentino; 2008). In 2007 the National People’s Congress Standing Committee Vice Chair Cheng Siwei announced that the ones who believe that “money overrides morality can no longer be tolerated in China” (Levine; 2008). After propagating profit and growth for decades, the leaders are now trying to refocus on the relevance of traditional Confucian values, using them to promote responsible leadership (de Bettignies; Cheon; 2007). By encouraging CSR, the public sector also wants to strengthen international competitiveness of Chinese companies for expansion by creating a more positive image of Chinese brands abroad (Levine; 2008). Besides legislation, many government bodies are involved in strengthening CSR on the central and local level. Nevertheless, a lack of cooperation among different departments exists. Furthermore areas of responsibilities overlap a lack of information concerning best practices exists and weak enforcement remain problematic (GTZ; 2007). Numerous initiatives on the basis of the legislation were established. The Shenzhen Stock Exchange (SZSE), Shanghai Stock Exchange (SSE), China Banking Regulatory Commission (CBRC), State Assets Supervision and Administration Commission (SASAC), China National Textile and Apparel Council (CNTAC) and the government of Pudong New Area published CSR guidelines, emphasizing the necessity for CSR standards and fostering alignment of business practices with the demands of the government (GTZ; 2009). Furthermore there are public private partnerships with companies on the local level, award schemes and even tax incentives for donations (Interview; 27.04.2009). Partnerships with chambers of commerce and round tables with NGOs and other stakeholders are happening on different levels as well. Long run international projects to

improve and develop the Chinese CSR approach are established for example with the Sino-German CSR project (Interview; 27.04.2009). In 2003 the SASAC was founded to carry out the government's functions as owner and investor of state assets. It manages China's 150 centrally owned state owned enterprises (SASAC; 2009), including 20 of China's 30 Fortune500 enterprises (Fortune; 2009). In January 2008 SASAC issued guidelines concerning CSR, urging SOEs to play a leading role in fulfilling social responsibilities (Xinhua; 2008).

The government plays a much stronger role in the development of CSR than it does in Western economies. According to Zadek (2009) 81 percent of the decision makers in China think that social and environmental responsibility improves business performance in the long run, which shows the tendency to see CSR in the performance driven way of Maignan & Ralston (2002, p. 498). Nevertheless, this is not their main driver of CSR engagement. Government policy or guidelines and government attitudes are the most important motivators for businesses in China to operate in a responsible way (Zadek; 2009) which shows that the government's role goes beyond just making the rules of the game. This underlines more the stakeholder driven way (Maignan & Ralston; 2002, p. 498) which regards CSR as a response to the demands and the pressure of stakeholders. Furthermore it shows the importance of the government for the development of CSR in recent times. However, the government is regarded as the most important stakeholder and key driver of the CSR activities of SOEs (Interview; 23.04.2009). Being major shareholder and legislator makes the government to the most powerful and therefore most significant stakeholder in the sense of Mitchel (1997). Therefore the CSR activities of the SOEs are regarded mainly as a response to the encouraging policy, even though this is not supported by quantitative data. "Harmonious Society will increase SOEs willingness to supply CSR as the government is able to intervene directly to demand such actions" (See; 2008).

5.2 Introduction

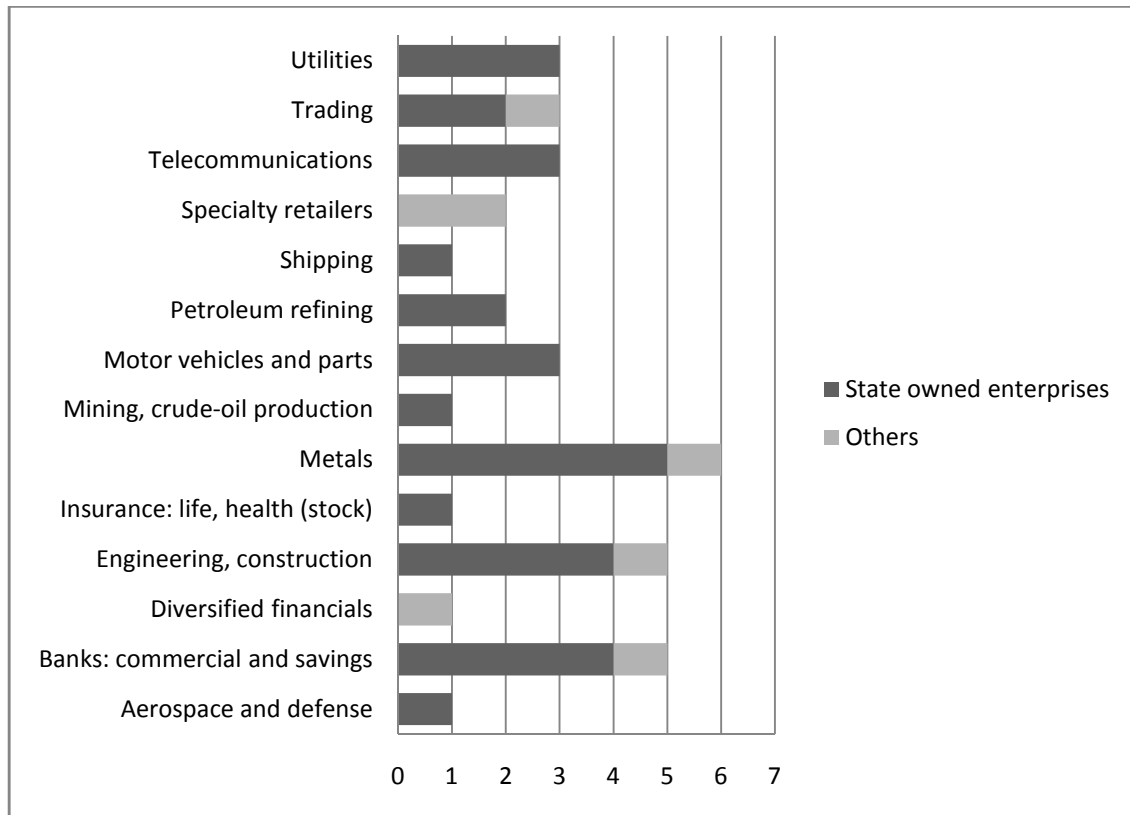
After two decades of restructuring, SOEs still play an important role in the Chinese economy, dominating strategically important sectors such as infrastructure construction, telecommunications, financial services, energy and raw materials (Yang; 2008). 69.8 percent of the top-500 Chinese enterprises, regarding revenue in 2007 were SOEs, accounting for 94 per cent of asset value and creating 88 per cent of the total profit, contributing 92.7 per cent of

overall taxes and employing 89.3 per cent of the workforce within the grouping (Geng et al; 2008). Due to their size and impact on society and the environment the SOES are crucial for the development of CSR in China. They are expected to engage in CSR and implement the guidelines issued by the government. "SASAC indicates that SOEs, as key players in the PRC economy, influence important industrial sectors and people's lives, therefore CSR is not only the mission of SOEs, but a public expectation" (Levine; 2008). Nevertheless the enforcement is problematic, since many SOEs are still high polluters which are not considering environmental laws (China daily; 2009). The following section will analyze the progress in CSR of the largest SOEs, based on the framework introduced in section 4.

5.3 Data

To analyze the CSR practices of SOEs in China, the focus is on the largest enterprises regarding revenue in 2009 since it can be assumed that these have a crucial impact on society and environment. Furthermore they can provide an example for other enterprises to engage in CSR. Therefore the Chinese SOEs which are represented in the Fortune 500 list published in July 2009 (Fortune; 2009) were chosen. The numbers are based on the previous fiscal year which might be ending on different dates for each company. Due to the availability of data, these companies are appropriate to analyze their CSR practices according to the described framework. At this point there are in total 37 Chinese enterprises enlisted in the Fortune500. The Chinese government owns at least 50 percent of 30 corporations which are represented in this list. These corporations are categorized in 14 different industries as showed in figure 1. Six Chinese enterprises belong to the metal industry, followed by five engineering, construction and banking and three in utilities, trading and motor vehicles and parts. Nevertheless the distribution of the industries in numbers has a limited significance, since most of the corporations are large holdings which include numerous subsidiaries which are not regarded in this thesis separately.

Figure 1 Number of Chinese Fortune 500 by industry



Source: Own calculation based on the Fortune 500 (2009)

In the following sections only the SOEs will be regarded. As can be seen in table 4, Sinopec is in the lead, listed as the ninth largest company worldwide, followed by China National Petroleum as the 13th and State Grid as the 15th. The smallest Chinese companies regarding revenue are the Aluminum Corporation of China on place 499, China South Industries Group on 428 and the Aviation Industry Corporation of China on 426. All companies together represent a revenue of 1.48 trillion dollars, profits of 87.23 billion dollars, 8.7 million employees and assets of 4.79 trillion dollars (Fortune 500; 2009). Due to this size, these companies could provide a major contribution to environment and society if they would apply CSR practices.

Table 4 Chinese SOEs in the Fortune 500

| Fortune 500 ranking | Company | Revenue in mil. \$ |
|---------------------|---------------------------------------|--------------------|
| 9 | Sinopec | 207,814.00 |
| 13 | China National Petroleum | 181,123.00 |
| 15 | State Grid | 164,136.00 |
| 92 | Industrial & Commercial Bank of China | 70,568.00 |
| 99 | China Mobile Communications | 65,015.00 |
| 125 | China Construction Bank | 57,977.00 |
| 133 | China Life Insurance | 54,534.00 |
| 145 | Bank of China | 51,317.00 |
| 155 | Agricultural Bank of China | 48,063.00 |
| 170 | Sinochem | 44,457.00 |
| 185 | China Southern Power Grid | 41,083.00 |
| 220 | Baosteel Group | 35,517.00 |
| 252 | China Railway Construction | 32,538.00 |
| 263 | China Telecommunications | 31,814.00 |
| 292 | China State Construction Engineering | 29,807.00 |
| 318 | China National Offshore Oil | 28,027.00 |
| 327 | China Ocean Shipping | 27,430.00 |
| 331 | China Minmetals | 26,667.00 |
| 335 | COFCO | 26,446.00 |
| 341 | China Communications Construction | 25,983.00 |
| 359 | Shanghai Automotive | 24,882.00 |
| 372 | Sinosteel | 24,164.00 |
| 375 | Hebei Iron & Steel Group | 24,034.00 |
| 380 | China Metallurgical Group | 23,767.00 |
| 385 | China FAW Group | 23,664.00 |
| 419 | China United Telecommunications | 21,981.00 |
| 425 | China Huaneng Group | 21,781.00 |
| 426 | Aviation Industry Corp. of China | 21,738.00 |
| 428 | China South Industries Group | 21,675.00 |
| 499 | Aluminum Corp. of China | 18,579.00 |

Source: Fortune 500 (2009)

These corporations will now be analyzed regarding their CSR practices according to the framework, introduced in section 4.

5.4 Findings

The evaluation of the companies will first provide an overview of the results concerning every indicator. After the presentation of the result and process oriented indicators, the overall results will be evaluated.

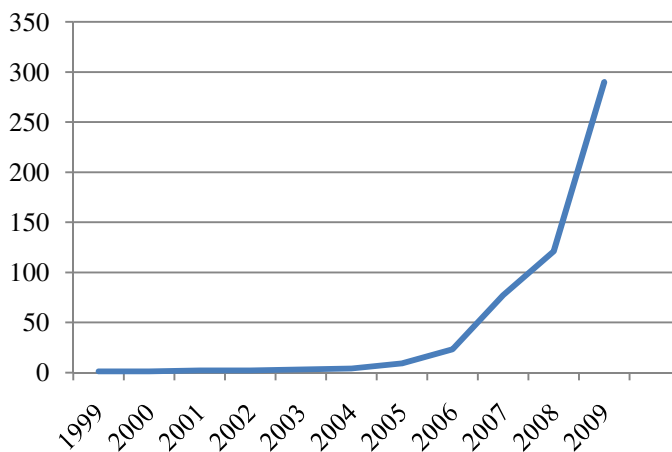
5.4.1 Result oriented initiatives

5.4.1.1 Soft requirements

On the national level the Hurun report enlists the top fifty corporations with the best CSR performance. In the list of 2009 17 SOEs belonging to the Fortune 500 were included, showing a rise from 16 in 2008 and 12 in 2007. The representation of the SOEs in the sample therefore grew from 40 percent since the establishment of the list in 2007 to 56.7 percent in 2009. Nevertheless the evaluation method of the Hurun magazine is questionable, since a large part of the rating is determined by taxes paid and number of employees which are not all necessarily CSR objectives from other definitions perspectives. Therefore it highly favors large companies, which could explain the rise of the SOEs in this ranking as well.

CSR reporting increased massively in China, as shown in figure 2. According to Syntao (China Daily; 2008), the number of CSR reports took off from 2006 onwards, as shown in table 2. The Shanghai Stock Exchange Bureau stated that in 2009 there are 290 companies in total which have disclosed CSR reports for the year 2008 (Chen; 2009) of which half were published by SOEs.

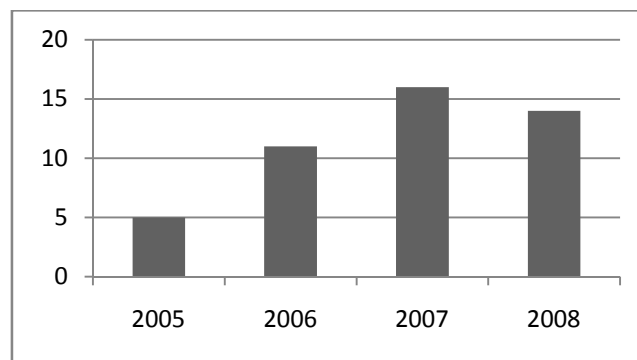
Figure 2 Chinese companies issuing CSR reports



Source: Syntao, Chen (2009)

This trend can be supported by the reporting activities of the SOEs in the Fortune 500. The number of CSR reports issued by the largest corporations increased tremendously. In line with the trend of an increasing number of CSR reports in China, the number of reports from SOEs grew constantly between 2005 and 2008. Since the reports usually are published in the following year, it must be noted that in all likelihood not all reports for 2008 have been released yet which could explain the slight decrease in 2008. Nevertheless it is likely that during the second half of 2009 more reports concerning the year 2008 will be released. Overall Only 16.7 percent of the corporations released a CSR report in 2005 while in 2007 it was already 53.3 percent and almost half of the SOEs in the sample released one for 2008 as well. Therefore CSR reporting is on the rise among the largest Chinese SOEs.

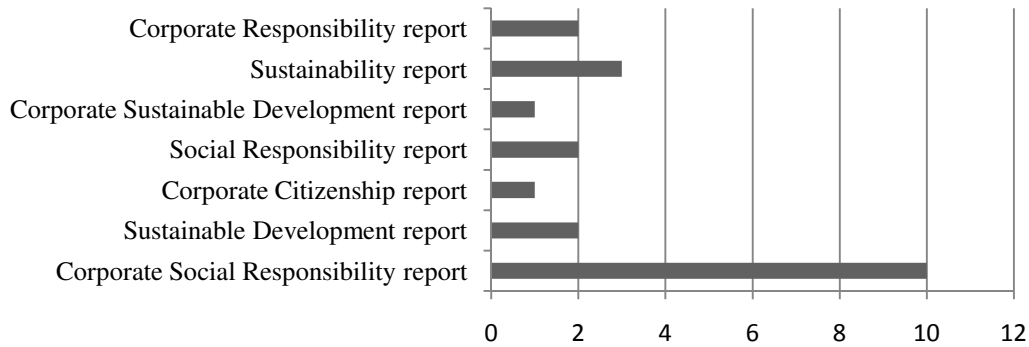
Figure 3 Published CSR reports by Fortune 500 SOEs



Source: own data

The names of the reports issued by the SOEs varied though. Figure 4 shows the different names used for the latest reporting about CSR and sustainability by the 19 SOEs which published at least one report since 2005. In this thesis the term CSR report is used as a general term covering all the different names since it is the most common expression as can be seen in figure 4 and is supported by the study of Sustainability Reporting in China by Peiyuan (2007).

Figure 4 Names of reports concerning CSR



Source: Own calculation

5.4.1.2 Hard requirements

Regarding the presence in international CSR/Sustainability ratings, the Chinese SOEs performed poorly. China Mobile is the only corporation out of all 30 SOEs which is represented in the DJSI 2008/2009 as of June 30, 2009 (SAM; 2009) since its existence. Not a single SOE is represented in the DJSI Asia Pacific 2008/2009 (Dow Jones Sustainability Indexes; 2009). The Global 100 list of the most sustainable companies (Global 100; 2009) and the Ethibel sustainability index (Ethibel; 2009) is not including any Chinese SOE either. The Chinese SOEs show that they are still far from international CSR standards and are not yet fulfilling the requirements for being listed in these indexes, even though China Mobile made a start, showing that Chinese SOEs are catching up (Interview; 27.04.2009). The CSR reports are differing massively among the analyzed corporations. To assure a certain standard, requirements such as using GRI guidelines should be used and checked by a third party certification body or the GRI. The numbers emphasize that third party audits are not common yet but growing. While only 3.3 percent of the SOEs released a report which was audited by a third party in 2005, 13.3 percent did this in 2008. This shows, that even though it is still on a very low level, it is becoming more diffused and the acceptance of international standards is increasing. However, the problem remains that in many SOEs which are releasing CSR reports only one department or a PR agency is responsible for it. Other departments remain excluded from the whole process and therefore the concept is not established appropriately in the corporate culture. In these cases, CSR is more used as a PR activity, which is showing that CSR is not fully understood and not implemented properly (Interview 27.04.2009). Most

SOEs tend to focus only on the good things in these reports, trying to create the image of a company which is fostering sustainability. Negative issues and concrete action how these will be addressed in the future are seldom provided.

5.4.2 Process oriented initiatives

5.4.2.1 Soft requirements

To assure that certain objectives are used to write a CSR report, the GRI standard provides an framework to avoid inappropriate reporting. In the 14 released CSR reports for 2008, the GRI standards were only applied in six of the cases (GRI; 2009). Two corporations declared to use the GRI guideline without assurance while four were also certified by Det Norske Veritas or GRI. Compared to 2005, when only one corporation used the GRI standard and was third party audited. This shows an overall improvement in CSR reporting and a slight tendency towards third party audits and more quality.

So far 36.7 percent of the companies in the sample are members of the UN Global Compact while in 2005 it was only 13.3 percent. Most companies joined in 2004 and 2008. This indicates awareness to CSR and engagement to learn, participate and get involved in partnerships to improve sustainability. At least on the paper the SOEs are making the principles regarding human rights, labor, environment and anti corruption part of their business strategy and day to day operations. However, the enforcement of the Global Compact principles is a problem and the rising membership does not mean concrete CSR action (BusinessWeek; 2004).

5.4.2.2 Hard requirements

So far only 10 percent of the SOE Fortune 500 companies became members of the WBCSD. Sinopec joined already 1996 while Baosteel and COSCO followed in 2006. This low participation might be explained by the high obstacles to join this multi stakeholder initiative. Since potential participants must be invited in order to join, showing engagement in CSR beforehand is essential.

For the CBCSD an invitation is not necessary and the companies can apply but need to implement CBCSD decisions and contribute time and resources. Therefore 23.3 percent of the Fortune 500 SOEs joined the CBCSD after its launch so far. Besides the corporations which were already represented in the WBCSD, FAW group which is a founding member as well, SAIC, State Grid and CNOOC joined the following years.

The ISO 14000 environmental management standard is not yet common in Chinese SOEs. So far only four corporations, representing 13.3 percent of the Fortune 500 companies have been certified according to their self declaration. COSCO was the first corporation in 2001, Baosteel got certified in 2006, followed by Aluminum Corporation and Sinosteel in 2007. The occupational health and safety management standard OHSAS 18001 is not common among the SOEs either. Only COSCO and China Aluminum corporation are certified so far according to their self declaration. This emphasizes, that standards which require a certification are not widely diffused among the SOEs. On the one hand it can be assumed that the effort which has to be put in these changes is very high and therefore SOEs step back or are simply not capable of meeting the requirements. On the other hand the companies which are analyzed in this thesis are very large entities with many subsidiaries. Therefore an overall certification on the parent company might not be common.

5.4.2.3 Results of the index

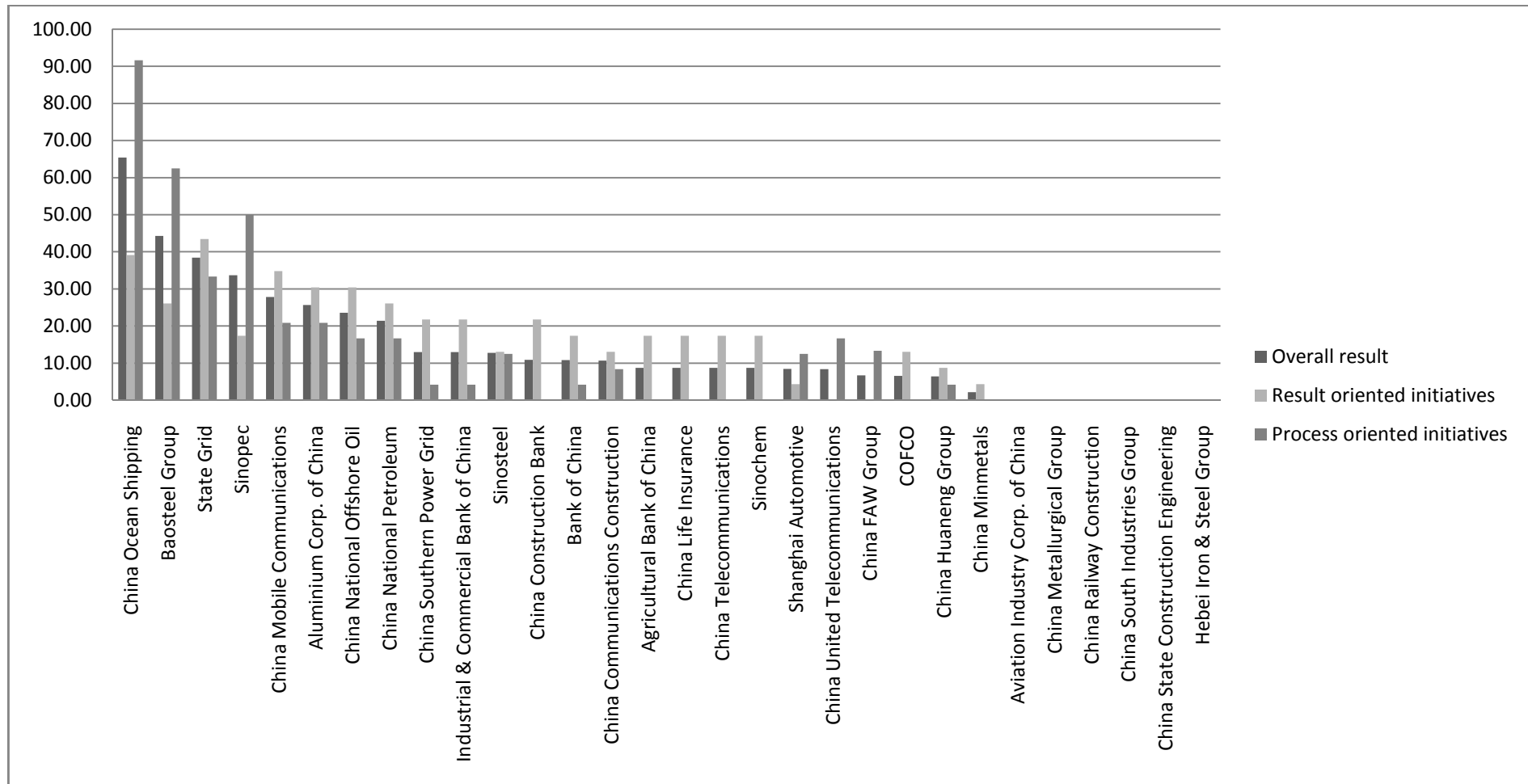
The overall assessment shows that some companies in the sample performed very high while the majority performed below the average score of 15 percent. Only eight companies achieved a higher score than 15 percent. The actions of six corporations were not represented by the indicators at all. This does not necessarily mean that in these companies CSR is not practiced, but it shows that certain efforts for CSR activity are not made.

The result shows that according to this CSR practice index, COSCO performed best with an overall result of 62.5 percent. With over 90 percent it performed much better in the process related indicators than in the result oriented ones with almost 40 only. Mainly due to the process oriented indicators as well, Baosteel became second. State Grid, Sinopec and China Mobile followed as can be seen in figure 6. On the other side many corporations did not release reports at all, were not listed in any CSR ranking and neither showed any effort in other initiatives which are included in the index. These six companies which did not take action at all or did not communicate it properly, are the Aviation Industry Corporation of China, China Metallurgical Group, China Railway Construction, China South Industries Group, China State Construction Engineering and Hebei Iron & Steel Group.

Regarding the recent developments in CSR practices, the results showed that among the corporations in the sample more than 50 percent were listed in the Hurun list of 2009. However, this result oriented indicator is strongly affected by employment, taxes paid and charitable donations. Therefore large corporations seem to be more likely to being listed. The

second most prevalent practice was the release of a CSR report, by almost 50 percent of the companies in the sample, followed by the membership of the CBCSD and the declaration of using the GRI standard for reporting. All other indicators were below 15 percent of the companies in the sample while in international sustainability ratings almost no Chinese companies were represented at all. This shows that the top three prevalent indicators were those which are considered to be soft requirements and therefore easier to participate in. Those with hard requirements such as the sustainability ratings, certifications or audits, memberships in WBCSD and CBCSD were much less frequented.

Figure 5 Index of CSR practices



The share of companies in this sample can be compared to international peers and shows that the Chinese SOEs are still far behind. The share of companies, which are publishing CSR reports belonging to the Fortune 250 has increased massively, showing the international trend towards CSR reporting. 79 percent of the Fortune 250 companies in 2008 were publishing CSR reports, compared to 52 percent in 2005 (KPMG; 2008). Only 46.7 percent of the Chinese Fortune 500 SOEs issued CSR reports for 2008, while in 2005 it was only 16.7 percent. Regarding 2008, 160 Fortune 250 companies declared to use the GRI standard which is representing 64 percent of the grouping (KPMG; 2008). Only 20 percent of the Chinese SOEs were using the GRI standard in their CSR reports. This shows that the largest Chinese SOEs are still far back from the global standard regarding reporting. Nevertheless it is becoming more common and the trend shows that the number is rising.

6. Conclusion

This thesis analyzed the CSR activities of the largest SOEs in China which are listed in the Fortune 500 from 2005 to 2008. A special focus was given to the role of the government as the main stakeholder for the SOEs which started to encourage CSR with a new policy guideline in 2005. A direct impact of the government's new policy guidelines on the SOEs CSR activities was supported by numerous articles, surveys and interviews. Therefore the CSR activities of the largest SOEs since 2005 became the object of research with the aim of answering the following research questions. How diffused is CSR among the companies? What are the practices of the SOEs and how are they adapting to international standards? In order to give an estimation of the transparency concerning CSR initiatives, the question arose, if and how the SOEs report about CSR and how this can be compared to international peers. To address these questions, an index based on a formative measurement model was developed to estimate the CSR practices in a broader sense and identify a best in class among the companies. The index distinguished between result oriented and process oriented indicators. It took into account ratings based on social investment criteria and CSR performance, membership in CSR initiatives, CSR reporting practices and certification schemes. It can be used in order to reflect the further development concerning the included indicators or provide a basis for deeper analysis.

This analysis showed that SOEs in China increased their efforts concerning CSR practices. According to the analysis, 24 of the SOEs in the sample showed some kind of CSR activity in the sense of the indicators. Six of them were not engaged in any of the initiatives included in the index at all. This does not necessarily mean that they are not practicing CSR at all.

Nevertheless it implies less activity and initiative from the perspective of this index. However, eight companies performed very strongly. These were involved in multi stakeholder initiatives, sharing knowledge, spending time and resources, integrating CSR related management systems and releasing CSR reports, some even by using international standards. While a big gap remains among the SOEs, overall CSR activities increased and became more diffused since 2005 when the government started encouraging it.

Even though the motivations to engage in CSR could not be quantified in this thesis, the new direction of the government is likely to be the main driver for the engagement of the SOEs.

However, many other factors are likely to influence this development as well.

Regarding the question, which indicators are the most frequented among the SOEs, the analysis showed that more than half of the enterprises were listed in the Hurun list in 2009, almost half of the SOEs have released CSR reports and more than a third were members of the Global Compact. Releasing CSR reports became more prevalent as well. Nevertheless, the utilization of GRI, as the most common standard for issuing CSR reports and getting assurance by a third party certification body is not prevalent yet. A comparison with international peers showed that reporting standards are way behind. The share of reporting companies among the SOEs compared to the share among the Fortune 250 companies shows that SOEs are way behind in releasing CSR reports and in using the GRI standard. It can be concluded that the large SOEs are becoming more active in CSR while some started adjusting to international standards. Nevertheless they are not playing a significant role in CSR on the global stage.

7. Final remarks

Even though the CSR practice index showed improvements of the SOEs concerning CSR, several other factors need to be taken into consideration as well. The construction of this index faced numerous limitations and was not built to provide a complete reflection of all CSR dimensions. In order to present a representative image of the CSR landscape of SOEs in China it needs a deeper analysis and more factors have to be taken into account. Concrete standardized objectives must be used in order to make an appropriate comparison among companies. Most SOEs in the sample are members of the Global Compact and signed a commitment to embrace human rights, labor standards, protection of the environment and anti corruption. In order to assess this in the right way the enforcement of these values need to be

included. Especially in China where rule of law is not fully established yet, respecting labor standards and environmental laws is not for granted. The SOEs are still considered to be the most polluting companies in China (Wang & Jin; 2002). Even though many are releasing CSR reports, the quality of them is often very low and reports are not reflecting the real performance of the companies. Instead an exaggerated image which is excluding the challenges is drawn. Therefore this thesis showed the difficulties in measuring CSR related objectives and emphasized the need for an internationally accepted framework which enables sufficient comparisons in this field. The GRI is a promising initiative to achieve this goal. Nevertheless more research needs to be done in this field. Furthermore the concrete impact of the government's policies on the CSR activities of companies needs more research. Articles, surveys and interviews supported the view of the government as main stakeholder and key driver for CSR in China. Still the concrete impact needs a sufficient foundation by more research. The future of CSR in China continues to be a topic of great interest. The further development of CSR among the SOEs and the question if CSR will become established in Chinese private enterprise becomes even more interesting against the background of the financial crisis.

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