

CSR Audit in China

- with case study of supply chain CSR audit

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Thesis for the fulfilment of the
Master of Science in Environmental Sciences, Policy & Management
Lund, Sweden, June 2012

MESPOM Programme:

Lund University – University of Manchester - University of the Aegean – Central European
University



**Erasmus Mundus Masters Course in
Environmental Sciences, Policy and Management**

MESPOM



This thesis is submitted in fulfilment of the Master of Science degree awarded as a result of successful completion of the Erasmus Mundus Masters course in Environmental Sciences, Policy and Management (MESPOM) jointly operated by the University of the Aegean (Greece), Central European University (Hungary), Lund University (Sweden) and the University of Manchester (United Kingdom).

Supported by the European Commission's Erasmus Mundus Programme



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Published in 2011 by IIIEE, Lund University, P.O. Box 196, S-221 00 LUND, Sweden,
Tel: +46 – 46 222 02 00, Fax: +46 – 46 222 02 10, e-mail: iiiee@iiiee.lu.se.

ISSN 1401-9191



Acknowledgements

I would like to express my gratitude to those who offer me the help through this research. I would like to specially thank my supervisor Professor Torbjorn Brorson for sharing his time and professional insight on this topic.

I also would like to thank the following people for sharing their experience, time and effort:

Mr. Tommy Lundstrom, Specialist of Ethics & Supply Chain CSR & Sourcing & Partner Management Operation, Sony Mobile Communication;

Ms. Johnston Zhang, QMC Manager, Nolato Mobile Communication Ploymers (Beijing) Co. Ltd.

Mr. Jason Li, ERM China.

Abstract

This research gives a special attention to CSR audit in China, from both theoretical and practical perspectives. The research starts with the analysis of theoretical foundation that underlies the emergence and development of CSR and CSR audit. Both stakeholder theory and principal-agent theory are applicable to explain it. In the context of these two theories, the corporate management is not only responsible for fiduciary financial duty to shareholders, but also responsible for fiduciary social duty to other stakeholders. Under the need to inspect the implementation status of this fiduciary social duty, CSR audit has gained fast development since its emergence. However since the lack of universal standard or guideline and the different perception to CSR, there is no unified CSR audit scope and depth, which in most cases are determined by the guideline or standard adopted. In light of this several most seen standards and guidelines in China are studied. In China those standards are widely used by the most direct actors of CSR audit – CSR auditors, which majorly comprises of MNCs' internal audit team and international audit firms. Two case studies also give the focus on these two different types of auditors, trying to closely look at their audit practices in supply chain CSR audit in China. Since the ultimate goal for CSR audit at site level is to achieve the practical improvement of CSR, those two cases are analyzed in a contrast and comparison fashion to reveal the impacting factors to on-site audit process and design of correction/improvement. Some beneficial learning points are expected to see so that a more effective audit could be developed and practically carried out.

Keywords: CSR, audit, supply chain

Executive Summary

This research gives a special attention to CSR audit in China, from both theoretical and practical perspective. CSR audit as a crucial method to measure CSR performance, however, is less focused especially in developing countries from an empirical perspective. In this research the following questions will be addressed:

- Why CSR and CSR audit could be developed in China?
- Who form the major actors of CSR audit in China?
- What is the general state of CSR audit in China?
- How a CSR audit is practically carried out in China and what factors might impact the audit process and further corrective or improvement actions?

The methods including literature reiview, personnel interview and case study are used to address the above-mentioned questions.

The research identifies that both stakeholder theory and principal-agent theory are applicable to explain the emergence and development of CSR and CSR audit. In the context of these two theories, the corporate management is not only responsible for fiduciary finicial duty to shareholders, but also responsible for fiduciary social duty to other stakeholders. Under the need to inspect the implementation status of this fiduciary social duty, CSR audit has gained fast development since its emergence.

Literature review and interview with professional auditors show the formation of most direct CSR auditor and auditee in China. From the auditor side, international audit firms and MNCs' internal audit teams account for the biggest share. They carry out the most CSR audits in China, with auditees including MNCs' own operations and suppliers in China, SOEs, CSOEs and listed companies. Any combination of CSR auditor and auditee with different purpose may generate different audit strategy and practices. But in general the CSR audit could be categorized into two major types, one is the CSR audit for the public that is related to the CSR information disclosure (B2P); and another is the CSR audit for inter-businesses and intra-businesses (B2B).

The research indicates that the number of disclosed CSR report has been seen fast increase in past a few years. Especially those SOEs, CSOEs and listed companies have been overtaking MNCs in China since 2006 in terms of number of published CSR reports. However since the lack of universal standard and guideline as well as the various perceptions to CSR inside of those companies, the quality of those reports is considered unbalancing. Some reports with poor quality are also obvserved since their concern about the cost of disclosing relevant information. This from a reverse angle shows a relatively low quality of CSR audit associated with CSR information disclosure in China.

Case studies comprising of internal and external supply chain CSR audits in China reveal the general procedures and methods of CSR audits. On-site audit process as well the potential conrrection/improvement are under the combined effect of key impacting factors, such as audit type, auditor, auditee, audit methods, cultural difference, etc. For instance, internal audit and external audit show their different pros and cons in the process of CSR audit. There are also several ways to motivate suppliers to implement further correction and improvement measures. Sanction or contract termination may propulse suppliers to implement further actions. This method however is not seen in our case studies due to the mutual-trust and collaborative relationship between audit consigner and auditee. It is found that provision of detailed information and reward scheme are helpful for the futher improvement. However at the current stage in China, overnight change cannot be expected. Intangible and tangible cost of taking correction/improvement is still a critical factor for suppliers to make the decision.

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Abbreviations

AAA: American Accounting Association

BSCI: Business Social Compliance Initiative

BSR: Business for Social Responsibility

CNTAC: China National Textile and Apparel Council

C SOE(s): State-Owned Enterprise(s) Directly under Central Government

CSR: Corporate Social Responsibility

EU: European Commission

GC: Global Compact

GRI: Global Reporting Initiative

ILO: International Labour Organization

ISO: International Standardization Organization

MNC(s): Multinational Corporation(s)

NGO(s): Non-Governmental Organization(s)

RoHS: Restriction of Hazardous Substances Directive

SAI: Social Accountability International

SASAC: State-Owned Assets Supervision and Administration Commission of the State Council

SEMC: Sony Ericsson Mobile Communication

SME(s): Small Medium Enterprise(s)

SOE(s): State-Owned Enterprise(s)

SSE: Shanghai Stock Exchange

SZSE: Shenzhen Stock Exchange

WB: The World Bank

1 Introduction

Since the 1960s, developed countries where rapid economic growth was experienced encountered some social issues such as environmental degradation, tensions between communities and enterprises, discriminating employment, unsatisfied employee welfare, insufficient protection of consumers' rights and energy shortage, etc. The existence and deterioration of these social problems not only harmed the public's living quality and social stability, but also hinder the healthy development of enterprises. Given this context, corporate social responsibility (CSR) started being a focal point of society and businesses in developed countries.

Nowadays the similar scene is observed in China. In the past a few decades, China has been keeping a rapid and constant economic growth. Since the cheap labor force and relatively lax legislation in China, China has been serving as the role of 'global factory' in the whole world supply chain. 'Made in China' as a label for this biggest developing country in the world, does not only contribute to boost the GDP, but also to generate a series of social issues. In response, the public started demanding enterprises, the main actors of economic activities and also the main producers of social impacts, to take more social responsibilities, rather than to pursue pure profit maximization. At the same time vast external investors from developed countries implant the concept of CSR into their Chinese suppliers or contractors, either for the consideration of avoiding potential social risk in China or enhancing corporate image. Under this background some CSR initiatives from Chinese government or private sectors have been observed, and the change of corporate value toward a more socially responsible one has been seen in some companies (Li 2010). As the development of CSR in China, CSR audit that is a critical way to measure CSR performance also emerged and gained its growth.

CSR audit has been widely perceived as a tool that can facilitate enterprises to fulfill formal/informal CSR criteria generated from corporate level (e.g. code of conduct) and international level (e.g. international standards/guidelines). However so far for the broad coverage of CSR itself and its complex definition, as well as different cultural background and social/economic development level in each country, there is no unified definition for CSR audit among different countries. In China, CSR audit is conceptualized as a tool to monitor social outcomes resulted from corporate activities, and to assist to generate the audit report, which is expected to positively impact the corporate strategic and operational decision-making regarding CSR implementation (Yang and Li 2004).

However the absence of unified definition of CSR audit does not affect the wide recognition of its theoretical basis. From the perspective of audit and according to the fiduciary duty theory, the essence of CSR audit is the assessment of the performance of implementing the fiduciary responsibilities by companies, here social responsibilities. The emergence of CSR audit is actually a transition of audit from being originally economic-responsible (for shareholders) to gradually being social-responsible (for the whole society). At the same time, the existence of CSR audit is also backed by the economic theory. In the book 'the economics of welfare', Pigou introduced the word 'externality' which contains two sub-categories: external save and external diseconomy (Pigou 1932). Besides, the thought of social cost by Coase also provides the basic theory for the generation of CSR audit when social cost and benefit are required to be assessed, just like financial audit but far more beyond it.

Comparing to the traditional financial or economic audit that is more specifically focusing on money issues, CSR audit has a much wider scope of its contents; and under the current understanding to CSR, this scope is difficult to be drawn. Theoretical study suggests that the CSR audit should reach all levels of stakeholder including shareholders, employees, contractors and suppliers, communities, customers and wider society, etc. It is supposed to cover all three aspects of sustainable development: social, environment and economic. More concretely, issues such as employees' welfare, customer satisfaction, environmental conservation, social contribution (employment and taxation) and business ethics etc., should be inspected by CSR auditors.

When CSR audit work is carried out, some principles or guidelines are needed for auditors. So far, there are already some international standards or guidelines that have been established such as GRI, AA1000, SA8000 etc. Those guidelines that extract the experience from developed countries however are not fully applicable in China. Some adjustments are necessary in order to make those guidelines more suitable in the context of current Chinese economy and society. For instance, some provisions in Chinese legislations regarding CSR should be incorporated into those guidelines if they are applied in China. It has to be pointed out here that there is no fixed formula for CSR audit guidelines; principles and guidelines that are applied by different auditors are also different. Even within one CSR audit firm where an internal audit guideline has been established, it needs to be used differently when facing different clients. At the same time, since the CSR audit is a combination of quantitative and qualitative method, it leaves certain space of subjective judgment for auditors even if there is an audit guideline in place. In light of these uncertain factors, it is necessary to closely look at the practices of CSR audit in China.

2 Objectives

The objective of this research is to depict the general state of CSR audit in China and meanwhile closely look at the CSR audit practices. In this paper the following research questions will be answered:

- Why CSR and CSR audit could be developed in China? What is the theoretical foundation underling the emergence and development of CSR audit?
- Who form the major actors of CSR audit in China? Who are the major CSR auditors and CSR auditees in China?
- What is the general state of CSR audit in China, by focusing on the quantity and quality of disclosed CSR reports?
- How a CSR audit is practically carried out in China and what factors might impact the audit process and further improvement and corrective actions?

3 Methodology

3.1 Literature Review

Academic articles relating CSR and CSR audit have been widely reviewed for the background study. The trend observed in the process of literature review is that corporate social responsibility has gained much attention in the academia. A lot of work has been done on the research of CSR, especially from the theoretical perspective. In contrast there is the obvious lack of study done on CSR audit from both theoretical and practical perspectives. Hence the literature review was majorly used to learn the background of and theoretical foundation for CSR and CSR audit.

3.2 Case Study

Two cases that can represent the most typical CSR audit right now in China were selected and studied. Both two cases were supply chain CSR audits in China, however were commissioned by their clients in developed countries. This type of supply chain CSR audit as required by companies in developed countries accounts for the major share of CSR audits in China. Hence these two cases were chosen for study in order to detail the audit practices, and to determine what factors might impact the audi and potential correction and improvement.

3.3 Interview

The interview with most direct actors of CSR audit was conducted. Personnel from both auditor and auditee were interviewed in order to gain the first-hand information, such as their perception of CSR audit, their description on CSR audit behaviors and their comment on CSR audit practices, etc. The major interviewees included the personnel from auditor and auditee in the above-selected cases. Besides the interview that was conducted specifically for obtaining the information of two cases, an open discussion was also held with a senior CSR auditor in China. The major purpose of this open discussion is to gain the picture of how CSR audit is practically implemented in China, from an auditor's perspective.

4 Basic Concept of Addressed Issues

4.1 Corporate Social Responsibility (CSR)

The concept of CSR emerged in 1920s and was put forward by Oliver Sheldon in his book *The Philosophy of Management* in 1924 (Sheldon 2009). Sheldon's theory connects the corporate social responsibility with corporate's duty of fulfilling internal and external needs. He argues that corporate should be responsible for all its activities that affect all entities, society and environment. This fresh-new philosophical theory suggests that the corporate operational policy and strategy should serve the community with the purpose of generating and increasing interest for it. Social benefit as a new gauge of corporate performance should obtain more attention than traditional corporate profitability.

Since the emergence of the concept of CSR, different governments, organizations or individual researchers have proposed different definitions for this term, but so far no consensus has been achieved. Stone suggests that, CSR is a very vague terminology, and this vagueness leads the concept of CSR a well-accepted one although it still lacks a unified definition (Stone 1996). Votaw also points out that CSR is a beautiful word. It means something but people always can read this word in a different way (Votaw and Sethi 1973). Definitions from international organizations, governments, and NGOs are presented as below.

World Bank in one of its report defined CSR as:

'The commitment of business to contribute to sustainable economic development working with employees, their families, the local community, and society at large to improve their quality of life, in ways that are both good for business and good for development'

- The World Bank (WB) 2003

European Commission in its green paper of '*Promoting a European Framework for Corporate Social Responsibility*' used the following definition:

'A concept whereby companies integrate social and environmental concerns in their business operations in their interaction with their stakeholders on a voluntary basis'

- European Commission (EC) 2001

A global leading NGO in the area of CSR, Business for Social Responsibility (BSR), gives its definition as (White 2006):

'...achieving commercial success in ways that honor ethical values and respect people, communities, and the natural environment'

- Business for Social Responsibility (BSR) 2006

Those different entities put forward different definitions of CSR on the basis of different perceptions. However the definition from even one entity could change over time, in another word, the definition of CSR is also under the dynamic process of evolution. This is attributed to the social and economic development that triggers new perception to this 'old' word. In 2011 European Commission presented a new definition in its new strategy for CSR, shown as:

'The responsibility of enterprises for their impacts on society'.

-European Commission (EC) 2011

This new definition of CSR is considered as a more completed one with wider scope; and of course this shortest definition so far is also a more vague one, which will leave even bigger space for perception by different readers. Although those definitions structure the concept of CSR in different ways, still some common grounds could be found. It is noticed that, in most of the definitions as well as the explanations of those definitions, CSR is considered be implemented on voluntary basis. In addition CSR is more than the compliance with basic legal requirements. Moreover the scope of CSR should cover but not limited to the aspects of environment, labour right, human right, product responsibility, business ethics, and community involvement.

Literature review reveals that CSR has been perceived by many as a branch of sustainable development (Morimoto *et al.* 2005), hence it is suggested that CSR should take consideration of all three aspects of sustainability including environment, society and economy. In the process of corporate operation and management, all stakeholders should be treated as a holistic group. The implementation of CSR then is a process of balancing interests among different stakeholders and gaining interest for this unity. This does not intend to deny the protection of shareholders' interests, but just require not jeopardizing other stakeholders' interests while making profits. The aspects that other stakeholders might be concerned about, such as, labour right protection, environment protection, business ethics, community relationship etc. should be taken into account. When addressing these issues in the background of CSR, compliance with basic legal requirements is far less than enough. Some voluntary activities that are not required by laws or regulations are also expected. Only to do so, CSR could be fulfilled and positive social impact could be generated.

4.2 Audit and CSR Audit

Before the emergence of CSR audit, there are already some other types of audit existing. From the most traditional financial audit in accounting realm, to the relatively new quality audit, environmental audit, health & safety audit, etc., different meanings of audit are given in different contexts. According to the definition by American Accounting Association (AAA), audit is a systematic process of objectively obtaining and evaluating the evidence regarding economic activities and affairs. It is aimed to validate if the assertions are in compliance with the relevant standard, and deliver the audit result to potential users (AAA 1973). In the

standard that is prepared by the International Standardization Organization (ISO) for quality/environment audit, audit is defined as:

'A systematic, independent and documented process for obtaining audit evidence and evaluating it objectively to determine the extent to which the audit criteria are fulfilled.'

- ISO (2002)

CSR audit as a relatively new strand of audit emerged and developed as the establishment of the concept of CSR. As a controlling mechanism used to measure the impacts of a corporate on its internal and external stakeholders, it should take the consideration of shareholders, employees, consumers, communities or the whole society. Since the foundation of this new concept, the concept of the principal of an audit extends from just traditional shareholder to external stakeholders or the public. The aim of an audit hence also gains the extension. It is no longer just a measurement of fiduciary economic/financial duties; more than that, it is also a verification or guarantee process of the information regarding fiduciary social duties.

Since the emergence of the concept, researchers have been trying to define CSR audit. In light of the meanings given by AAA and ISO, it is suggested that ISO definition is more applicable for explaining the audit in the context of CSR. However resembling the difficulty of defining CSR, so far no unified definition of CSR audit has been achieved. Different scholars give out their understanding and definition of CSR audit from various angles. From the perspective of audit content, Alexander and Buchholz suggest CSR audit as a measurement of corporate social performance. It is used to assess and report the result of the performance that is not covered by traditional financial report (Alexander and Buchholz 1978). From the perspective of audit function, CSR audit is supposed to be able to inspect if the corporate ethical target is in line with the financial target. The result of CSR audit should be convincing and acceptable when it is used to communicate with the stakeholders (Dawson 1998). Meanwhile from the perspective of audit purpose, CSR audit should aim to increase the integrity and reliability of CSR report, so that the implementation of CSR could be truly and completely presented (Adams and Evans 2004).

Comparing to the definitions or explanations given out by scholars, organizations or companies usually construct their conceptualizations on CSR audit in simpler ways. An advisory company specialized in sustainability and CSR defines CSR audit as:

'A CSR audit aims at identifying environmental, social or governance risks faced by the organizations and evaluate managerial performance in respect of those'

- Schema

'...measure the value of intangible assets such as intellectual capital, customer and vendor loyalty, employee satisfaction and creative "synergy" and community support... to validate corporate performance against generally accepted criteria and report to the stakeholders the...'

-Vasin, Heyn and Company

Those definitions of CSR audit are constructed and presented differently based on the different perception, however they share some common grounds and agree with each other from certain respects. For instance, they all agree upon that it is a measurement tool to

evaluate social responsibility performance of a corporate, rather than just traditional financial performance. Also instead of just focusing on the result that financial audit used to do, CSR audit also gives attention to corporate behaviors and practices of CSR implementation. Hence CSR audit should be both qualitative and quantitative (Morimoto *et al.* 2005). It is also found that the audit should be conducted against certain guidelines or standards, either globally wellknown ones or self-developed ones.

It also has to be addressed here that in this paper, CSR audit is used as a broad term. This is also observed in many other articles where CSR audit, social audit, corporate responsibility audit etc. are exchangeably used. It is acknowledged that audit is a term with specific meaning, especially in the context of traditional financial audit. As the message conveyed by many definitions of CSR audit, it should be carried out by external and independent auditors to make sure its credibility. However in practice more and more internal CSR audits are taking place without the engagement of 3rd party.

In addition there is also a debate about the relationship of CSR audit and CSR accounting. In some articles those two terms are used with no difference; however in some others scholars treat them differently although some common points between them have been perceived. For example CSR audit is considered as a branch of CSR accounting in the study conducted by Gray in 2001 (Gray 2001). Difference of these two terms could be easily understood in the context of traditional economic concept. Accounting is a process of recording and measuring corporate financial activities, while audit is a process of investigating accounting materials and some other financial activities. Putting these two terms in the context of CSR, however the concept of each has been eroded by another, since they both focus on the measurement of CSR performance and CSR activities. Then some definitions of CSR accounting try to distinguish accounting from audit by giving an emphasis on communicating or reporting of the result to the public (Gray *et al.* 1987). However even in traditional financial context, this role also could be undertaken by audit.

Hence again in this paper CSR audit will be used as a broad concept that covers social accounting and some other terms mentioned above, if there is any difference. But inspired by the definition of CSR accounting, in this paper, CSR audit will be generally divided into two types, one is B2P (business-to-public, which means the result of audit is usually used to communicate with the public, including communities or consumers) and another is B2B (business-to-business, which means the audit that takes place inside of one business or between different businesses and the result is usually for internal use and confidential). These two different types of audits will be studied in Chapter 8 and 9 respectively from different angles.

4.3 CSR in Supply Chain

In this section the basic concept of CSR in supply chain will be briefly introduced considering the downstream position of China in global supply chain. It was also this supply chain that served as a channel through which the concept of CSR and CSR audit were imported into China by multinational corporations in 1990s (MNCs). In addition since the case studies below also relate to supply chain CSR audit, a touch upon on CSR in supply chain seems necessary.

Supply chain is a network of organizations. It includes suppliers, clients and the logistic vendors that convey service or products to final consumers (Simchi-Levi and Kaminsky 2002). It is also a relative concept. In this chain, an enterprise could be a supplier and also a client at the same time. For quite a long time, the competition of enterprises in the market has extended to supply chain (Christopher 2005). As the globalization and internationalization, many big corporations start outsourcing their manufacturing activities to developing countries, where cheaper labour, cheaper land and loose legal environment could be found (BSCI). They benefit from this shift of supply chain since the reduction on cost. However while enjoying a lion share of the profit, those enterprises also have to face the social issues that literally exist. Environment degradation, poor working condition or low wage, etc. all may destroy their reputation or, even more seriously sometimes, cut off the supply chain. For instance, dissatisfaction to low wage might lead to a strike. Another 'perfect' example to explain this situation is the suicidal cases happening in Apple's Chinese supplier Foxconn. The series of suicidal cases due to low wage, excessive working hours and militant management system, do not only put Foxconn, but also its major client Apple, in front of the public for questioning (Zhang 2012). Hence in order to safeguard their reputation and business continuity, plus due to the increase of internal awareness of CSR, the concept of CSR is incorporated into supply chains as a management strategy by many corporations, especially those focal companies.

In all the supply chains, there are some focal companies; and it is the focal company that usually plays a leadership role of promoting CSR in the supply chain. Those focal companies usually obtain capital, technology, brand effect and consumers; and at the same time get more pressure from the public for CSR implementation. They integrate CSR into their strategic management system, and strengthen their position as a core enterprise in the supply chain by developing the CSR requirements (e.g. codes of conduct) and requiring their suppliers to comply with (as shown in *Figure 4-1*). They are the rule setters of the game, at least in their supply chains. The contribution of those core enterprises to promoting CSR in supply chain is unquestionable. However with respect to those small medium enterprises (SMEs) that are usually downstream of the supply chain, their contribution also cannot be overlooked since every company's contribution to social responsibility can benefit the whole supply chain. Those SMEs usually use the positive replies to answer the requirements from focal companies, for increasing their competitiveness or in a simpler way, for securing or getting more contracts with their clients. When those SMEs develop their internal CSR policy, the awareness also gains the enhancement. Some relatively bigger SMEs as they develop to a certain level, may also incorporate their suppliers into CSR management. To them, this might be a process of transferring risk or lowering potential social risk, but indeed the CSR concept and practice is delivered along the supply chain.

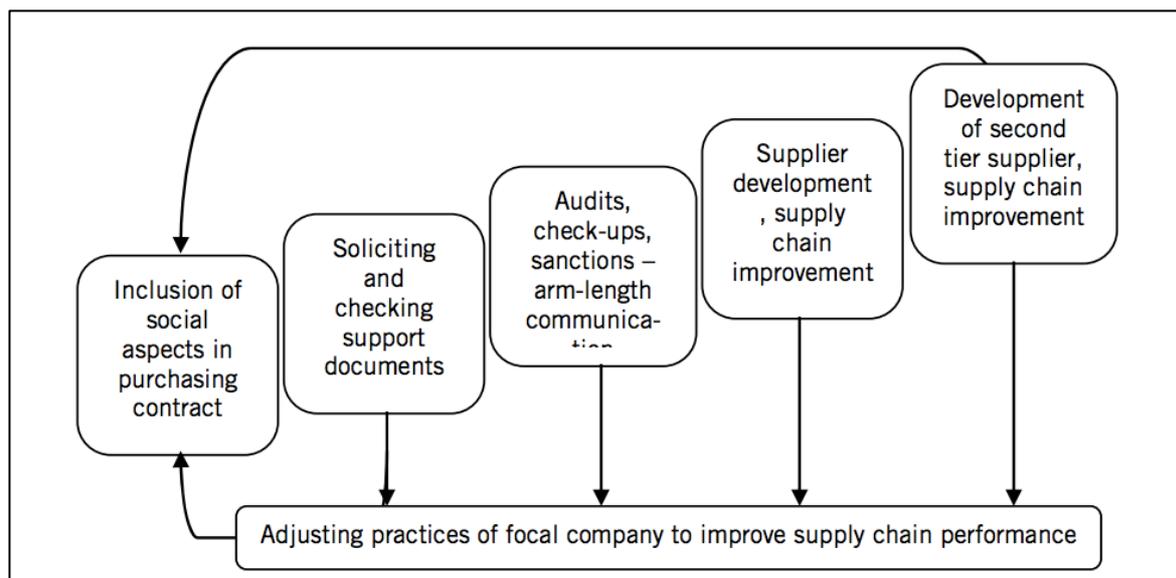


Figure 4-1 CSR Practices in Supply Chain by Focal Company

Source: Mont and Leire 2008

In the study conducted by Giliberti, three methods are identified to help enhance CSR management in supply chain (Ciliberti *et al.* 2008). Documented CSR requirements for suppliers, a well-established program for evaluating and auditing suppliers' performance, and assistance to enhance suppliers' awareness, all contribute to deliver the concept and practices of CSR along the supply chain. The second method, CSR audit, which is also the topic of this paper, is a crucial step in supply chain to help enhance CSR performance. It is a method for companies to evaluate, measure or track the CSR performance of their suppliers, to see if the performance is in compliance with pre-set requirements. And of course from the perspective of risk management, it is also a method to prevent and control the risk from social side. For example, instead of performing routine CSR audits to their suppliers in China, Apple now adopts a new audit method named '*surprise audit*' to insure the quality of audit (Apple 2012). This new method is considered as an effective way to let the client such as Apple see the real situation rather than what they are expected to see by their suppliers. Nowadays in 'world factory' China, more and more supply chain audits including CSR audits are carried out. This type of audit, done by both internal audit teams and external audit firms, actually takes the biggest share of CSR audit market in China. If the above-mentioned B2B and B2P concepts are adopted here, this CSR supply chain audit absolutely falls within the former one.

Finally it has to be addressed that CSR or CSR audit in supply chain shouldn't just be the leverage used by buyers to choose or negotiate with suppliers, however it is an area that both sides should improve together (Jiang 2009). In some extreme cases, big corporations, especially those who have strong commitment to social responsibility, may cancel the contracts when detecting serious CSR issues in their suppliers. Apparently to do so can reflect those corporations' resolution on supply chain CSR. But if the contract cancellation causes the bankruptcy or layoffs of suppliers, there will be a doubt if the contract cancellation is still social positive or not. Hence a corporate that is really committed to CSR should give the space to its suppliers for improvement and correction, and in this process, resources and other supports should be offered.

4.4 Glossary

The explanations of some Chinese featured words are given here in order to facilitate the reading.

State-owned enterprises (SOEs): In China SOEs does not only include the enterprises that are invested and owned by central government, but also includes the ones that are invested and owned by local governments.

State-owned enterprises directly under the central government (CSOEs): It stands for the SOEs that are directly held or owned by central governments. There are totally 118 CSOEs in China, and those enterprises contribute to around 30% of Chinese GDP. These CSOE are managed and supervised by State-owned *Assets Supervision and Administration Commission of the State Council* (SASAC).

Shanghai Stock Exchange (SSE) and Shenzhen Stock Exchange (SZSE): They are the only two stock exchange markets in China.

5 Theoretical Basis for CSR and CSR Audit

5.1 The Stakeholder Theory

The stakeholder theory stems from a memorandum in Stanford University and later was conceptualized by Freeman (Freeman 1994). The term of stakeholder was defined as any individual and entity that could be affected by the activity, strategy, policy, operation or target of a corporate. In return, those individuals and entities also could affect the corporate activities, strategies, policies, operations and targets. This theory is generated in the context of increasing conflicts among different corporate stakeholders. Since its emergence, it has been widely accepted, and especially favored by the management levels in corporate.

Donaldson and Preston present three aspects of stakeholder theory including descriptive (to describe the corporate features and practices, and identify who and what are stakeholders), instrumental (to identify and solve the problem between stakeholder management and the accomplishment of corporate targets) and normative (to understand and identify the new function of corporation besides pursuing profits) (Donaldson and Preston 1995; Van der Lan 2009). These three aspects of the theory differentiate with each other in terms of function, and go deeper from descriptive function to normative function along the theory. Then they interrelate with each other and serve as a holistic concept, used by corporate as a supporting and powerful tool to coordinate with the outside environment in particular. This theory also corresponds the basic concept of CSR since the issues centered in CSR actually is a higher requirement on the relationship of corporate (shareholders in particular) and other stakeholders (external stakeholders in particular). Hence stakeholder theory, especially its third aspect – normative function, provides the basis underling new relationship between corporate and stakeholders, as well as the legitimacy that corporate should implement CSR. In this sense the introduction of stakeholder theory also offers the theoretical ground for the research of CSR and CSR audit.

Since the occurrence of stakeholder theory, it has been considered as the adjustment to the traditional principle of 'shareholder primacy' (Jensen and Meckling 1976). Corporate, as a social organization, the intrinsic connection of its social responsibility and the stakeholder theory could be well explained by contract theory. The main stream of modern firm theory suggests that the essence of the firm is a legal entity consisting of a group of explicit contracts and implicit contracts (Schmidt and Schnitzer 1994). In the context of this theory, it is understood that since the ownership of physical capital is the source of right, and this ownership could directly or indirectly control human capital, those shareholders who literally possess the corporate physical capital are in the better position in incomplete contract of enterprise. The adjustment function of stakeholder theory is embodied in the extension of the scope of contract signatories to all stakeholders, or in another word, corporate is a contract unity that consists of all stakeholders (Hill and Jones 1992; Buchholz and Rosenthal 2005). Nowadays this adjustment function of the stakeholder theory is playing a more significant role as the economic development. The perfection of capital market and the intense competition in this market make the corporate operation no longer a confined concept. The external environment gradually poses higher requirement to the corporate ability of integrating social resource. The survival and development of corporate show a closer connection with all stakeholders, and stakeholders' interests also show a closer connection with the survival and development of corporate. For instance, risks cannot be avoided by banks or creditors while they make the interest from the investment that they put in the corporate; consumers pay for

the products or services from corporate, however they also might be put under the risk arising from inferior quality; corporate employees might not obtain the protection of their basic rights while generating the value for their employers; the government might not receive the tax from corporate while providing infrastructure and basic social management, which is necessary for the operation of any corporate. In light of the instances mentioned above, corporate shareholders are no longer the only investors and risk takers. All the individuals and entities that invest in the corporate or take the operating risk of the corporate in any direct or indirect way, shall gain the attentions from corporate management to insure their basic rights. From this perspective the existence of stakeholder theory provides the sound foundation for the development of CSR concept. Since the CSR theory asks for a change of corporate, from the emphasis on traditional micro-profitability to the balance of stakeholders of different types, both stakeholder theory and CSR concept complement each other and since their establishment, have been well acknowledged in the academia.

More than the adjustment function to shareholder primacy principle, stakeholder theory also plays a significant role of defining the targets and scope of CSR. Through the process of literature review, it is observed that the consideration of different stakeholders is an indispensable part in the research of CSR or CSR audit. Clarkson studies CSR by using stakeholder management as a framework, given that CSR is an objective reflection of the externalities of corporate activities (Clarkson 1995). In another word, if the activities for the sake of corporate internal benefits bring the interests to external individuals or societies, the externality of corporate operation is known as social responsibilities. The CSR issue to large extent is about how balancing the conflict between the corporate itself and stakeholders, hence scoping the CSR to some extent is also a process of identifying stakeholders.

In summary, the functions of stakeholder theory are reflected from the following perspectives: 1) stakeholders are the receivers of corporate social impacts, and the fundamental goal of CSR is to meet the wider scope of stakeholders (Jamali and Mirshak 2006; Waddock *et al.* 2002); 2) stakeholders' expectation determines the expectation of CSR performance from corporate; 3) by evaluating the gap between CSR achievement and expectations, stakeholders could be the assessors of CSR performance; 4) stakeholders take actions according to their interest, expectation, tolerance and assessment result. The stakeholder theory provides the study of CSR a theoretical framework, within which the issue of CSR is scoped within the relationship between corporate itself and stakeholders.

Meanwhile stakeholder theory also provides a theoretical support to the study of CSR audit. Some essential problems such as audit scope, audit object and quantification of CSR audit are to some extent solved in this context. The stakeholder theory assists to transform the abstract CSR issue to the concrete stakeholder issue, define the concrete auditing object and build a road from the abstract CSR audit theory to practices. Hence the stakeholder theory has been considered in academia as a precondition to study CSR audit (Wang 2010).

5.2 Principal-Agent Theory/Fiduciary Duty

Another theory behind CSR and CSR audit is the principal-agent theory. It is considered partially interrelated with stakeholder theory (Goodpaster 1991; Marcoux 2003), and contributes more to the generation of CSR audit. The principal-agent theory is one of the most essential parts of contract theory in the past 30 years. Its emergence was triggered by the economic study on corporate asymmetric information distribution in 1960s and 1970s.

The principal-agent relationship is understood as a contract relationship under which one individual or entity (agent) acts on behalf of another (principal). In detail, agent is empowered to manage resources owned by principal, and meanwhile agent is responsible to report to principal about the management status of these resources (Nesvadbova; Marcoux 2003; Shapiro 2005). Hence fiduciary duty is generated in the context of principal-agent relationship.

More than just a static concept, fiduciary duty is a dynamic one that reflects various perspectives (Wang 2010). Fiduciary duties might change due to the different principals at different stages of time, which hence leads to the different types of audits. Financial audits are needed due to the existence of fiduciary financial duty; similarly the existence of fiduciary social duty generates CSR audit. The latter one, to a certain degree, presents an extension of the principals. Traditionally shareholder and corporate management team are used to be classic example to illustrate principal-agent theory. However, as the economic development and the perfection of capital market, the scope or the concept of principals has gained great expansion (Goodpaster 1991). Nowadays the concept of principal is more than shareholders who possess the ownership of corporate. Some indirect stakeholders, who have no legal ownership of corporate however have indirect social or economic connection with the corporate, also could be principals. In this context the corporate management is not only fiduciary for the interest of shareholders, but also the interest of expanded stakeholders (Sacconi 2006). This type of multi-fiduciary is also considered as a result of the expansion of the scope of intended users in assurance standards. More explicitly corporate is no longer confined within the private zone; nevertheless it has become a key chain of this social mechanism. Its operation is not only authorized by monetary investors, but also by the whole society or community that provides for example the environment or infrastructures. The social feature of corporate makes corporate management level the trustee of society rather than just the agent of shareholders. Hence the management level of corporate is not only responsible for reporting to the shareholder but also all the other stakeholders and the public. It has to be addressed here that other stakeholders will not replace the position of shareholders but just deserve more attention. Moreover since corporate, its principals and agents all exist in the same social and economic environment, the development and survival of corporate have great impact on all stakeholders and vice versa. All these stakeholders, theoretically, have the right to require conducting audits of different types and obtaining the information that they need. Then the above analysis indicates that the principals of audits also shift from only corporate shareholders to all stakeholders including the public, and the audit objective shifts from providing the information regarding traditional fiduciary financial duty to providing the information of fiduciary social duty.

There are two principles underling the fiduciary duty of CSR audit, including entrusted power principle and harmful effects principle (Wang 2010). Entrusted power means that since the agents are empowered by principals to manage and control the recourses that belong to principals, agents at the same time are also asked by principals to take fiduciary responsibilities. Harmful effects principle means stakeholders whose interest and right are adversely affected have the right to ask for the responsibilities. They both present a type of social obligation under which mutual benefits and interests should be fully recognized and protected, and it will be detailed as below:

In the classic concept of fiduciary economic duty, agents are required to act in accordance with specific rules. Principals empower them to manage the entrusted economic resources and require providing the report about management status (Sacconi 2006). This requirement is usually put forward by principals. It is an expectation held by principals asking for ideal

activities from agents, and sometimes, an objective social request. As the social and economic development, this request is also undergoing a process of upgrading and complicating, which is sequentially reflected on the scope of principals of audits. The development of contract theory and stakeholder theory enlarge the concept of principal of audits. It is no longer limited to the shareholders who literally own the corporate and physical capital. Other stakeholders who are indirectly related with the corporate also could form the part of principals (Sacconi 2006). It is acknowledged that different stakeholders may hold different requirements on fiduciary duty of agents. However since the individual stakeholder is not able to clearly define the quota in overall interest generated by corporate, individual is not preferred to exercise its rights. In addition the community also cannot effectively exercise right due to high cooperation cost. Hence in light of the high cost of communication and organization, an external party is necessary to exercise the right on behalf of the stakeholders. Moreover the interest of different stakeholders rests in the center of conflicts and coordination. Different stakeholders pursue different interests, however all expect to achieve consensus. This consensus then is considered as an impetus for CSR audit.

The generation of CSR audit also could be explained by harmful effects principle. According to the neo-economic theory, corporate behaviors can generate externality. This externality comes from the effect of one economic entity's behaviors on another economic entity's interest, however this effect fails to be totally reflected through currency and market trade (Pigou 1920). This externality of corporate could be both positive and negative. However due to the pursuit of profit maximization, corporates mostly generate negative externality while they make profit for their shareholders. In this traditional context the cost perceived by corporate is lower than the social cost, part of which has been transferred to some external stakeholders including the public and the society. However those shareholders who benefit from the corporate activities do not compensate the adversely impacted society. This situation has been changed as the social and economic development. When the public faces the both economic benefit and adverse social impact brought by the corporate, the former one might be favored at the initial stage. However since impact of corporate gains great expansion, larger scope of the public may be adversely impacted while gaining no direct benefit. This unfair situation confronted by the majority of public hence requires the corporate to undertake some social responsibilities, in another word, ask for the right to inspect and supervise the corporate performance of fulfilling social duties. In this process, the corporate may choose to compensate part of the public (perceived as key stakeholders) in order to continuously generate externality, but negatively in most cases. This compensation however is also an important part of cost that the corporate have to balance. When this cost raises high, the corporate will choose to fulfill part of the social responsibilities, which might help them save some cost to certain extent. In this context it is suggested that the generation of CSR audit is the most effective choice by the society to measure the social performance and social cost. Since the normal public is lack of ability and expertise to inspect and supervise the corporate performance of implementing social responsibilities, the public might authorize a professional third party to conduct CSR audit. All in all, corporate has to take the social responsibility for their social impact in the process of economic activities and CSR audit is an effective way to assess and measure their contribution.

5.3 Chapter Remark

In summary, the existence of principal-agent theory generates fiduciary duty, and the dynamic process of evolution of fiduciary duty theory gives rise to CSR audit. Power entrusted

principle guarantees the legitimacy of CSR audit. More explicitly, the inclusion of stakeholders as part of principals of audits also makes social responsibility part of audit scope when the performance of fulfilling fiduciary duty is assessed. Since the public is sometimes directly or indirectly exposed to the harmful effects from the corporate, the public hence has the right to request the inspection and supervision on the corporate performance of implementing CSR. In another word, harmful effects principle represents the driving force behind CSR audit. The possibility of audit will not exist unless the power provided by power entrusted principle and the necessity of audit will also not exist without the propulsion of harmful effect principle; and all this is somehow built upon the recognition of stakeholder theory (Freeman 1994).

6 Standards or Guidelines

In the process of CSR audit, certain standards or guidelines, either widely accepted ones or self-developing ones, must be used and followed. The current situation faced by CSR auditors is the lack of a universal standard or guideline, and numerous could be chosen for different purposes. The standards and guidelines that are currently found and used by auditors majorly include the following three types: standard for CSR performance that could be used by auditors to determine the scope and evaluate the compliance; guidelines for the procedure and practices of CSR audit that could be used by auditors to regulate audit behaviors and increase audit quality; or standard and guideline for CSR reporting that could be used by auditors to determine audit scope and audit depth. All the three types of standards or guidelines could to certain extent contribute to increase the quality of CSR audit and finally reach the aim of CSR enhancement. Some of the standards or guidelines are chosen for introduction as below:

6.1 International

6.1.1 Global Report Initiative

'Global Report Initiative' (hereinafter referred to as GRI) was published the first time in 2000 and its third version, namely GRI G3, was published in 2006 based on the pervious two versions. It serves as an external reporting guideline, aiming to help companies, governmental organizations or non-governmental organizations to better describe their CSR performance, and at the same time to facilitate relevant stakeholders, sometimes as non-professional, to understand the performance. In GRI guideline, a comprehensive index system is provided. It covers the three aspects of sustainability including economic aspect, environmental aspect and social aspect. Especially social aspect, it requires the inclusiveness of the following aspects: *labour protection and reasonable work, human rights, society and product responsibility* (GRI 2006). Companies that have participated in GRI are anticipated to report their CSR performance by using the indexes that fall within the above-mentioned areas. Of course more than just serving as a social reporting guideline, it also a tool that can assist auditors to determine audit scope and choose audit indexes. Moreover, in order to increase the credibility of disclosed CSR report under GRI framework, an extra assurance process could be taken. In a certain sense, this process is also a type of 3rd party CSR audit, and it is usually done by accounting firms such as Big Four auditors.

6.1.2 Global Compact

'Global Compact' (hereinafter referred to as 'GC') was started by UN in 2000. Unlike some other UN treaties, the participants of GC are companies rather than countries. It focuses on the contents covering four major areas: *human rights, labour standard, environment and anti-corruption*. Based on these four aspects, 10 principles are put forward by GC. After being a participant of GC, a company is required to report and suggested to use the index system of GRI (UNGC).

6.1.3 Social Accountability 8000

'Social Accountability 8000' (hereinafter referred to as 'SA8000') was established by Social Accountability International (SAI) in October 1997. It was developed by respecting the

requirements of International Labour Organization (ILO) and The Universal Declaration of Human Rights. The major elements that SA8000 covers include *child labour, forced and compulsory labour, health and safety, freedom of association and collective bargaining, discrimination, disciplinary practices, working hours, remunerations and management system* (SAI 1997). As stated by SA8000 itself, it could be either used as a management system for CSR performance enhancement, or used as a guide for auditing the performance. Similarly with ISO14000 or ISO9000, it is also a standard against which that a company or factory could apply for certification.

6.1.4 AccountAbility 1000

‘AccountAbility’ 1000 (hereinafter referred to as ‘AA1000’) is not a single one standard. However it is a series of standard that include AA1000 Principles Standard (AA1000APS), AA1000 Assurance Standard (AA1000AS) and AA1000 Stakeholder Engagement Standard (AA1000SES). The aim of AA1000 is to establish a professional standard for social audit, assurance and reporting, and ultimately to improve social performance. In AA1000APS, three principles are put forward to generally guide the assurance (SA). They include *inclusivity, materiality* and *responsiveness*. These three principles then are well incorporated into the AA1000AS. For example in AA1000AS, auditors are required to detect if all the social information that stakeholders need have been considered and included; and based on the information, if stakeholders can make the decision. This is a reflection of principle of inclusivity. Then the principle of materiality requires the auditor to assess if the auditee is aware of the substantial part in their social performance. Principle of responsiveness asks the auditor to evaluate if the auditee has positively responded to the relevant stakeholders’ concerns. Moreover AA1000APS also gives out the standard for guiding the auditor’s practice in the area of increasing credibility, independence, and justice, etc. over the audit process. In the last standard, a framework of how involving relevant stakeholders is provided. It majorly includes three steps: thinking and planning, preparing and participation, response and evaluation.

6.1.5 Guidance on Social Responsibility

‘Guidance on Social Responsibility’ (hereinafter referred to as ‘ISO26000’) published by ISO in November 2011 is considered as a milestone in the process of developing a universal standard for social responsibility. ISO26000 clearly defines the concept of social responsibility, makes it applicable to all the organizations of course including enterprises. With respect to the content of ISO26000, it contains seven major elements including *organizational governance, human rights, labour practices, the environment, fair operating practices, consumer issues, community development and involvement* (ISO 2011). Under these seven major elements, there are 37 core topics and 217 detailed indexes, which make this newly published standard a practical and effective tool for managing and assessing social responsibility performance. So far ISO26000 does not have any certification scheme, hence there is no formal audit from 3rd party auditors for issuing certificates. However this is not considered as a factor obstacbling the adoption of this standard by companies and auditors.

6.2 Domestic

6.2.1 Guide Opinion on the Social Responsibility Implementation for CSEOs

In January 2008, SASAC issued *'Guide Opinion on the Social Responsibility Implementation for CSEOs'* (hereinafter referred to as 'Guide Opinion'). The major aspects of CSR that are covered and required in this Guide Opinion include law-abiding operation and honest business, protection of business continuity, improvement of service and products, resource saving and environmental protection, self-innovation and technological improvement, safe production, protection of labour rights and engagement into charity. It is reported that, in order to make the Guide Opinion a more applicable and effective tool to enhance CSR in CSEOs, SASAC will release a new guidance in 2012, which will provide CSEOs with a more detailed CSR evaluating and reporting system (SASAC 2008; Guo 2012).

6.2.2 The Guide on Social Responsibility for Companies Listed on SZSE

In September 2006, SZSE established *'The Guide on Social Responsibility for Companies Listed on SZSE'* (hereinafter referred to as 'SZSE Guide') in order to manage and administrate the CSR implementation in listed companies on SZSE. It is suggested by the SZSE Guide that listed companies should apply this guide to implement CSR, conduct periodic CSR audit and disclose the audit result on a voluntary basis. This guide adopts the stakeholder concept, by addressing the protection of the rights of shareholders and creditors, employees, suppliers, clients, consumers, environment and natural resource. This guide also expects the voluntary disclosure of audit result, or in another word, CSR report. If the report is produced, it should contain at least the information of companies' performance on employee protection, environmental protection, and product quality and community relationship (SZSE 2006).

6.2.3 The Guide on Environmental Information Disclosure for Companies Listed on SSE

In May 2008, SSE published *'The Guide on Environmental Information Disclosure for Companies Listed on SSE'* (hereinafter referred to as 'SSE Guide'). The notice published the same time with this guide, also covers the requirements on CSR implementation from SSE. It should include at least the following aspects, social aspect, such as protection of employee health and safety, protection of and support to the community, product quality control; environmental aspect, such as prevention and reduction of environmental pollution, water resource and energy conservation, protection of livable community, protection and increase of biodiversity; economic aspect, value generation for clients through products and service, creation of better working opportunity and future development for employees, and higher economic returns for shareholders (SSE 2008).

6.2.4 China Social Compliance 9000 for Textile and Apparel Industry

'China Social Compliance 9000 for Textile and Apparel Industry' (hereinafter referred to as 'CSC9000') is considered as a flagship in Chinese CSR standards and guidelines, although it is just an industrial criterion. It was developed by China National Textile and Apparel Council (CNTAC) and was issued in May 2005 (Gaugler and Shi 2009; Li 2010). It adopts the requirements of Chinese laws and international treaties that have been recognized by Chinese government, and make those requirements suitable in the current Chinese context. Since the establishment of CSC9000 is to increase the competitiveness of China in the global supply

chain of textile and apparel, it covers the areas that those international buyers and clothes brands are most concerned about. It gives attention to 14 aspects of CSR, including management system, discrimination, labour organization and collective bargaining, child labour and underage labour, forced labour, labour contract, working hours, remuneration, harass and abuse, occupational health and safety, environmental protection, and fair competition. Detailed explanations and requirements are given in CSC9000 in order to facilitate the implementation.

In addition noticeably this CSC9000 also incorporates the requirement on CSR audit by stating that companies should establish one or more than one CSR audit programs in order to check if the company is in compliance with the CSC9000 management system. The result of the audit should be reported to the management level so that the improvement or corrective activities could be carried out. In order to facilitate the audit, a 10-page self-assessment form is also provided (CNTAC 2005).

6.3 Standards/Guidelines Covering Parts of CSR Concept

As mentioned above, before the emergence of CSR audit, there are already some other types of audit existing, such as quality management system audit, environmental management system audit, health and safety audit, etc. These more specific audit types, to certain extent, represent single or several aspects of CSR audit; and they are considered as the precursors of CSR audit. The wide use of these CSR audits even now when the concept of CSR audit has been put forward is attributed to the establishment of well-recognized standard and certification mechanism. ISO9001, ISO14001 and OHSAS18001 published by international organizations serve as the criteria that underlie the quality management system audit, environmental management system audit, and health&safety audit. These standards all generally adopt the plan-do-check-act method, specifying the requirements of each step in their own focusing areas (ISO 2004). Together with their corresponding audits, these three different standards respectively give the attention to protect the rights of customers, community/society, and employees. This to certain extent is a reflection of the stakeholder concept at the early stage. Even to day, the effort put by companies to comply with these standards will absolutely contribute to the enhancement of overall CSR performance since the wide coverage of CSR concept. Those standards with their own certification schemes will also somehow facilitate the CSR audit by lightening the working load of CSR auditors. With respect to the quality and/or environmental management system, ISO also issues a standard ISO19011 for guiding the audit practices and behaviors. With the aim to serve both internal audits for self-check as well as 3rd party audits for certification, it specifies the requirements from audit planning stage to post-audit stage (follow-up stage). Besides it also elaborates the requirements on the competence of quality/environmental management system auditors (ISO 2002). These standards that cover parts of CSR concept will not be abandoned as the appearance of CSR standard (e.g. ISO26000). In contrast with the CSR standard with wider scope, these standards focusing on specific areas usually have indepth requirements. Hence a complementary relationship could be expected to see between these standards covering partial CSR concept and CSR standards with wider scope.

6.4 Chapter Remark

Since there is far less agreement on how CSR performance should be measured (Moriomoto *et al.* 2005), various standards and guidelines introduced above show their differences in terms of content depth and content scope (as shown in *Table 6-1*). With respect to the content depth, it is noticed that some of them are relatively superficial. Especially those Chinese standards and guidelines, such as Guide Opinion, SZSE Guide and SSE Guide, do make the statement requiring relevant companies to address CSR issues in certain areas, however do not specify the detailed expectations. This kind of Chinese featured and sketchy standards and guidelines does not only leave the space for companies to understand, but also confuse the auditors who practically use them for audit. It is unknown if it is done on purpose for an easier kick-off of CSR implementation in China given the real situation here. With respect to the content scope, the observation is made that extra emphasis is given on certain aspects of CSR by some of the standards and guidelines. For example, CSC9000 gives special attention to labour rights and human rights. The same pattern is also noticed in SA8000. It is acknowledged that they both are practically valuable and developed for certain purposes, however considering that one is named as ‘China Social Compliance’ and another is named as ‘Social Accountability’, some other key elements of social responsibility should be incorporated at least. Then the direct situation that might be seen under this context is the increase on number of standards and guidelines, which sequently will confuse auditors or companies that which standards they should follow. Hence it is found that standards or guidelines with either low depth or narrow scope may hinder the promotion of CSR audit in China from a long-term consideration. Whether the newly released ISO26000 can change the situation is still awaiting empirical test.

Table 6-1 Comparison of the Scope of CSR Standards or Guidelines

Key elements of CSR	GRI	GC	SA8000	ISO26000	Guide Opinion	SZSE Guide	SSE Guide	CSC9000
Organizational management	✗	✗	○	○	✗	✗	✗	○
Environment	○	○	✗	○	○	○	○	○
Human rights	○	○	○	○	✗	✗	✗	○
Labour rights	○	○	○	○	○	○	○	○
Business ethics	✗	○	✗	○	○	✗	✗	○
Product responsibility	○	✗	✗	○	○	○	○	✗
Supply chain	✗	✗	✗	✗	✗	○	✗	✗
Community	○	✗	✗	○	○	✗	○	✗

Note: ‘○’ indicates that the specific element of CSR is covered in the corresponding standard or guideline, while ‘✗’ indicates the opposite.

In addition to the standards and guidelines that are published by governments or organizations, ‘invisible’ standards and guidelines developed by corporations or professional audit firms are also widely used for CSR audit in China. Those documents are mostly for internal use, and developed as a chain of CSR management system tailored for their companies. They unusually contain very detailed expectation for CSR performance from a corporate, as well as comprehensive audit procedures that auditors could follow step by step. Since those types of standards and guidelines only serve as internal documents used by corporate, its suppliers or professional audit firms, they are less known by the outside comparing to the above mentioned ones. But still it is valuable to look into those private standards and guidelines, hence case studies below will also give some attention to them.

7 Actors of CSR Audit in China

When discussing CSR audit, it is crucial to identify who are the major actors of this ‘game’ in China. Two major groups are identified in the study including auditor and auditee with detailed description below. It is also known that the client who purchases CSR audit service also plays a significant role in this industry. However it will not be separately introduced since that the concept of client only exists when external auditor, or 3rd party auditor in another word, is hired, which will be mentioned below.

7.1 Auditor

The major auditors that carry out CSR audits or provide CSR audit service in China comprises of, but not limited to, the following sub-groups:

- MNCs’ internal audit teams
 - Internal audit
 - Supply chain audit
- International audit firms
 - Large accounting/financial firms
 - Large quality firms
 - Medium-sized environment, health and safety (EHS) consultancies
 - Medium-sized management consultancies
 - Small social consultancies
- Local social audit firms
- NGOs
 - Local NGOs
 - International NGOs
- Governmental departments

7.1.1 MNCs’ Internal Audit Team

MNCs in China, especially those where CSR has been a part of corporate culture or strategy, usually have their own CSR departments or CSR audit teams. Those departments or teams did not exist until the importance of CSR was perceived inside of those companies. For the need

of integrating resources to implement CSR, new CSR departments or teams start to derive from their internal predecessors, such as MNCs' internal quality departments, environmental departments, procurement departments or human resource departments. Nevertheless situation also exists that there might be no exclusive CSR departments or audit teams in MNCs' daily management. The routine CSR work under this circumstance is usually lead by one of the above-mentioned departments and supported by others. When there is a need to conduct a CSR audit, officers from those departments will temporarily form a CSR audit team. The behaviors and practices of the team in the process of CSR audit are usually well guided thanks to the existence of corporate policy, standard procedures or codes of conduct in most MNCs. Those standard procedures or codes of conduct sometimes also facilitate the decision about the scope and index of CSR audit. Plus that internal CSR audit team is relatively more familiar with the manufacturing or operational processes, some practical results and effective recommendations could be seen through audit conducted by internal auditor.

7.1.2 International Audit Firm

International audit firms accounts for the lion's share of CSR audit industry in China; and those sub-groups including large accounting firms, large quality firms, medium-sized EHS consultancies, medium-sized management consultancies and small social consultancies are the major competitors in this market. They are considered as the professional 3rd parties that are usually committed by MNCs to audit their operations or suppliers in China, the function of which is partially overlapping with the job done by MNCs' internal audit teams but considered more professional and independent. Of course those international audit firms gain the reasons for existence. Besides the independency and professionalism, the existence of international audit firms somehow reflects the demand under market economic mechanism. In China there has been a rush of Chinese companies to obtain international certificates such as OHSAS18000 and ISO14000 etc. Those certificates are only issued by accredited auditors under certain international standards or guidelines. The fact is that international audit firms form the major part of accredited auditors, and this leaves international audit firm a big market that is barely shared by others.

By looking into the business structures of these international audit firms, a pattern is noticed that CSR service or CSR audit is not the core business in most of the cases. Their traditional core businesses, based on which CSR business has been developed, all somehow relate to one or several aspects of the wide scope of CSR. Then as the development of CSR and the emergence of this new market, these companies grasp the chance and aim to share a piece of the big cake. One obvious example is 'big four'. Those four leaders in traditional accounting or financial service market including KPMG, PWC, Ernst and Young, and Deloitte all provide their clients with sustainability services in China. Similarly, CSR audit service in China now also could be purchased from, for instance, SGS with its traditional core business in product quality control and verification, ERM with its traditional core business in environmental consultancy, and Accenture with its core traditional business in management consultancy and sourcing. The business structure matters since it may somehow affect the manner how CSR audits are carried out by those different types of international audit firms. More attention might be given to the area where the firms used to specialize in, in another word, their traditional core businesses. This kind of situation cannot be totally avoided although it is recognized that international audit firms usually have comprehensive and explicit audit procedures and quality control mechanisms. This is because the blood of their core business might be inherent since the development stage of audit procedure. Moreover even if the audit procedure is non-biased, auditors may still show that inclination since CSR audit is somehow a job that needs subjective decision. More obvious inclination might be seen when auditors are

trained from accountants, product quality auditors, environmental auditors or management consultants. It is not aiming to argue that special attention given to their core businesses when CSR audit is their disadvantage; in contrast, this feature might become the factor differentiating one firm from another, later turn into competitiveness to attract clients that anticipate value-added service in certain areas. And of course some picky clients may want to receive best services from different international audit firms, hence it is not surprising to see a joint audit team comprising of more than one audit firm in China, which is another story (Wang *et al.* 2010).

7.1.3 Local Social Audit Firm

Local social audit firms only account for minor part of the market of CSR audit in China, and it has a relatively shorter history than MNCs' internal audit teams and international audit firms. Since the late entrance of CSR concept into China, local audit firm was not seen until less than 10 years ago. Although starting relatively late, it has gained very fast pace of development by learning experience from international audit firms and recruiting experienced professionals. Some advantages are also seen from those indigenous firms. They are usually more familiar with local policy, law and regulation, have better understanding about clients' concerns, and obtain stronger controllability of sensitive cultural issues. In addition price sometimes is also one of their competitivenesses to attract clients, especially those local SMEs that have no sufficient budget but want to take off in CSR. It has to point out that those local audit firms that 'steal' experience from international firms but not abandon own local cultural concepts are expected to earn a more significant role in the future CSR audit market in China.

7.1.4 NGOs

With respect to NGOs in China, they have been at an awkward position since its emergence. After 1970s, the development of market economy left a blank area between government and enterprises in China. NGOs, with the advantage of non-profitability and public benefit creation, supplement the function of optimizing social resources that used to be offered by government and enterprises (Yang and Cheng 2010). Some independent NGOs under this circumstance collaborate with big corporations and assist to supervise, inspect or audit the CSR performance of Chinese local manufacturers. However under current status in China, the relationship between enterprises and NGOs is still sensitive. In China enterprises usually provide NGOs with support, training and cooperation. However this link is easy to be broken. This is majorly due to that the power held by NGOs in China is still limiting, and their relationship with enterprises could not be deepened in this context. Especially when enterprises are driven by certain interests, they are highly possible to break the rule of cooperation (Turner 2003). Apart from the relationship between NGOs and enterprises, the attitude of government about NGOs also accounts for the situation. It is true that NGOs in China have already got the recognition from government, however their activities should only take place if the current political context permits. Research shows that the government attitude toward NGOs, especially those human rights NGOs, is always inconsistent; and sensitive information disclosure from NGOs is intolerant by government. This could be a factor affecting the decision if an NGO should be invited for CSR audit, and it somehow explains why NGOs only account for small part of CSR audit industry in China.

7.1.5 Governmental Departments

The audit conducted by governmental departments is more focusing on one or several aspects of CSR, for example, environmental audit and safety audit etc. They aim is to inspect the status of legal compliance rather than to go beyond the law. Since the legislative documents

have already specify the clear indicators and corresponding requirements, the audit work performed by governmental departments is relatively straightforward and simple.

7.2 Auditee

The major entities that receive CSR audits in China comprises of, but not limit to, the following sub-groups:

- MNCs
 - MNCs' own sites
 - MNCs' supply chain: local firms including international OEMs
- SOEs and CSOEs
- Listed companies in SSE and SZSE

Nowadays, MNCs, SOEs and CSOEs are expected by Chinese government to act in a more practical manner to enhance CSR performance (We and Choi 2008). Listed companies similarly feel the pressure from two major stock exchange markets including SSE and SZSE. This leads to a structure that MNCs, SOEs, CSOEs and listed companies form the major part of CSR audit service clients, or CSR auditees in China, which was not seen until 2006. As illustrated in *Figure 7-1* extracted from the study of 'current state of audit industry in China' in 2005, SOEs, CSOEs and listed companies were not included as audit service clients at that moment. The same conclusion was also made by Guo *et al.* that, before 2005 foreign companies in China were the major clients of CSR audit, but this situation changed very quickly after 2006 (Guo *et al.* 2007).

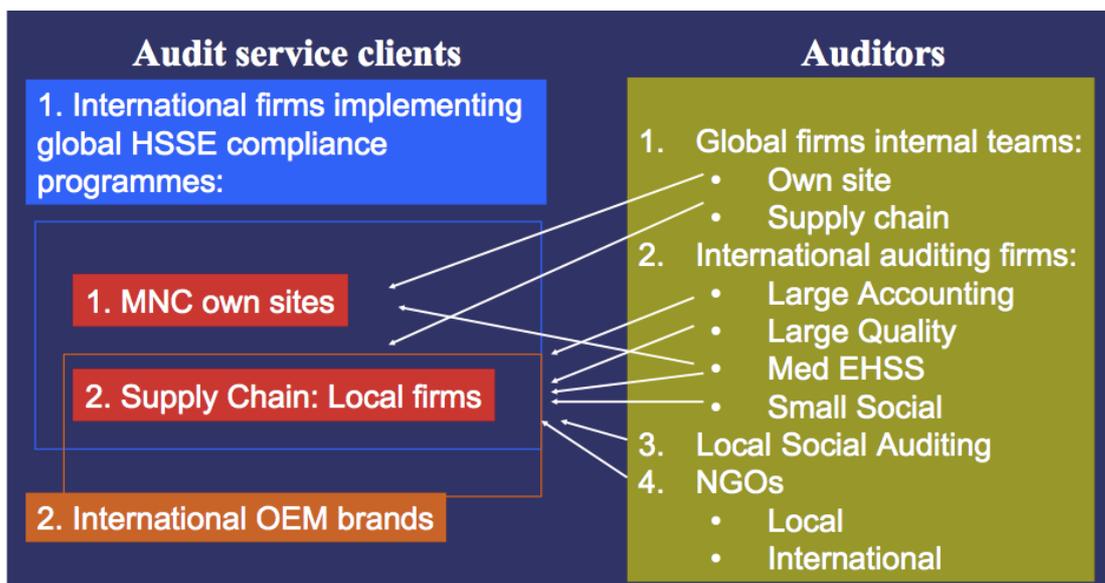


Figure 7-1 Structure of CSR Auditors and Audit Service Clients in China before 2005

Source: Larsen 2005

7.2.1 SOEs, CSOEs and Listed Companies

The growing role played by Chinese local enterprises could be explained differently based upon their sizes. With respect to SMEs, their needs for CSR audit could be majorly attributed to the direct or indirect requirement from their consumers, for example, MNCs on the upstream position of supply chain. Large sized companies, especially those SOEs, CSOEs, as well as listed companies on SSE and SZSE have got pressure from government and stock exchange markets for CSR information disclosure due to their social impact of large scale. As mentioned above, some policies, laws, regulations regarding CSR have been released, including 1994 *Company Law*, 2006 *The Guide on Listed Companies Social Responsibility by SZSE*, 2008 *Guide on Environmental Information Disclosure for Companies Listed on SSE* and 2008 *Guidance Opinion on the Social Responsibility Implementation for CSOEs* (Li 2010). It is also reported that in 2012, SASAC will release a new 'Guidance on Social Responsibility Implementation for CSOEs'. This new guidance, after its release, will offer an evaluation system for CSR performance, facilitate the audit procedure and practice, and encourage more large sized companies to conduct CSR audit and disclose relevant information (Guo 2012).

The information about how CSR audits are carried out in SOEs, CSOEs and listed companies is barely accessible, however some implications could be seen through disclosed CSR reports. CSR audits conducted by those large Chinese local companies for CSR information disclosure in most cases are processes of internal data collection, screening, compilation and publishing. Instead of committing externally independent auditors, most audits and reports are finished by using internal human resources. With respect to the standards and guidelines that are used for audit and reporting, international ones such as GRI, and domestic ones are all observed. For instance GRI is adopted as an index system for audit and reporting as shown in the CSR reports disclosed by Ping An Group in 2011 (Ping An 2011), by Bank of China in 2010 (BOC 2010) and by SinoChem Group in 2009 (SinoChem 2009) etc. Besides it is also found that some corporate internal index systems are chosen for audit and reporting, such as the CSR report provided by Shenhua Group in 2008 (Shenhua 2008). Meanwhile some reports do not specify any standard or guideline or internal index system, hence the quality of audit and reporting is questionable.

In contrast those companies considered as good examples in CSR audit and reporting do not only adopt and specify the standard or guideline, but also attach the verification of the report from independent 3rd party in order to increase the credibility of their reports. With the major aim of verifying the information provided in the report, and avoiding the biased disclosure of CSR information, auditors from accredited audit firms need to take the site visit, personnel (stakeholder) interview and document review. In this process, the information regarding main stakeholders' expectation could be gained, and the compliance status against selected reporting guideline or standard could be checked. In China the main power that offer 3rd party verification service is accounting firms, which account for around 60% of the market (Guo *et al.* 2007).

7.2.2 MNCs

Although SOEs, CSOEs and listed companies are playing an increasing role in CSR implementation and some positive changes have been observed, still the contribution of MNCs in the past and now cannot be overlooked. In 1999, the first CSR report disclosed in China was from Shell China Group, a European company rather than a Chinese domestic

company (Guo *et al.* 2007). Even now statistics of disclosed CSR reports in China may indicate that Chinese local companies are taking the lead in terms of the number of disclosed CSR reports, however MNCs in China are buying much more CSR audit service. The purpose of these relatively ‘invisible’ CSR audits is not for disclosure but only for business use.

The incentives underneath the demand of MNCs to buy, conduct or receive CSR audit stems from the extension of CSR culture that has been embodied into their corporate strategy, of course, in some of them. Besides this is also considered as an effective way to transfer and lower the risk that may threat business continuity. Meanwhile externally the public and government in China pose more pressure to those foreign investors as they start realizing the importance of environment or human rights etc., which used to be sacrificed when economic value was generated by MNCs. In order to track the CSR performance of their own operations or suppliers in China, CSR audits are usually required or conducted by MNCs’ headquarters and MNCs China operations. A sketch of the relationship between audit consigners and auditees is shown in *Figure 7-2*.

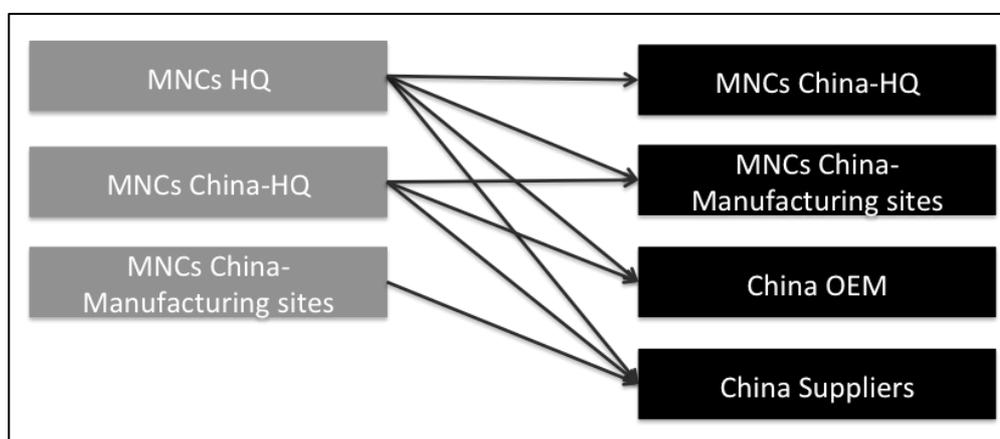


Figure 7-2 Relationship between CSR Audit Consigners from MNCs and Auditees

Both internal CSR audits (audit MNCs’ own operations) and external CSR audits (audit MNCs’ suppliers) reflect the MNCs’ commitment to enhance their CSR performance in China, however the slightly different attitudes towards these two types of audits is still noticed in some of the cases at least. During the interview with a senior CSR consultant from a world leading environmental consultancy, it is mentioned that both types of CSR audits are purchased by MNCs for their own operations and suppliers in China. Internal CSR audit usually plays a more supportive role and is more likely to focus on performance enhancement. External supply chain CSR audit, however, is more focusing on findings more or less. Although in most cases clients do not clearly address the special need prior to the order of CSR audit, still in the process of contact it could be felt that with respect to internal CSR audit, clients prefer to see what have been done; however to external CSR audit, clients prefer to see what have not been done. Different responses also could be seen from the side of auditees, which may directly lead to the information accessibility during on-site audit. Meanwhile in the process of report writing, relevant personnel from MNCs’ own operations is more inclined to contact auditors, discussing about their performance, potential improvement measures, report findings, etc. In some cases those personnel even ask the possibility to remove some findings if the findings could be easily corrected and they have done so. This kind of situation, of course, also happens when supply chain CSR audits are carried out and auditor is contacted by MNCs’ suppliers or OEMs, however at a much lower rate. Here it is

not aiming to judge the good or bad between these two different types of audits, but just to give a brief introduction of CSR audits in two different audited entities-MNCs' own operations and suppliers. Undoubtedly, there is also an ethical issue confronted by auditors under this situation and this also could be explained by using the principal-agent theory.

7.3 Chapter Remark

The combination of any type of auditee and any type of auditor will generate dozen of audits, each with potential different purposes and audit practices. It is over time-consuming and also unrealistic if all the combinations are deeply studied in this research. However given that MNCs and large Chinese local companies in China are the major consumers of CSR audit, a quantitative and qualitative analysis focusing on disclosed reports that are mostly done by SOEs, CSOEs and listed companies will be presented in the next section; followed by two case studies of MNCs supply chain CSR audit in China focusing on detailed audit practices.

8 Current State: Focusing on Disclosed CSR Reports

The aim of this part is trying to statically and qualitatively analyze CSR audit in China. However since the majority of CSR audits that take place in China is un-public and relevant information and data are inaccessible, the special attention in this part will be given to those publicly disclosed CSR reports and information, which are mostly published by Chinese local companies. Under the help of those CSR reports and from a reverse angle, a general picture of CSR audits at least SOEs, CSOEs and listed companies is expected to see.

8.1 Quantitative Description

- By May 2012, 318 reports of social responsibility have been submitted by Chinese companies under the framework of GRI (GRI 2012);
- By May 2012, 277 companies from China have participated in Global Compact (UNGC 2012);
- In 2011, some 60% of Chinese companies, majorly SOEs and CSOEs, have reported on their corporate social performance and this level is expected to surpass that in Sweden and Netherland in the next round of survey (KPMG 2011);
- From 1 January 2011 to 31 October 2011, 817 CSR reports were disclosed in China. This number was 663 in the whole year of 2010 (GoldenBee 2011).
- From 1 January 2010 to 30 July 2010, 494 listed companies published CSR reports, 49 of which are verified by 3rd party auditors (Zhang 2010).
- By 2009, 223 Chinese companies have been certified to SA8000 (Lee 2011);
- By 2009, 22,667 Chinese companies have been certified to OHSAS18000 (Lee 2011);
- By 2006, more than 400 factories in China have been audited by using the framework of Business Social Compliance Initiative (BSCI) (Lee 2011) and there are 1,274 suppliers and participants that have joined BSCI by 2010 (BSCI 2010); and
- Before 2006, less than 100 corporate social reports were disclosed by Chinese local enterprises together with MNCs in China.

In 2011, a famous Chinese CSR consultancy conducted a detailed research on disclosed CSR reports. In total 817 CSR reports released from 1 January 2011 to 31 October 2011 were covered (GoldenBee 2011). It is shown that 66.2% of the reports were published by SOEs and CSOEs, 6.3% of the reports were published by foreign companies in China, and listed companies accounted for 76% of the total number of the reports. The research also statistically analyzes the reporting standards or guidelines used in those reports. The result

shows that 62% of the 817 reports specified reporting guidelines or standards. 9.12%, 23.46%, 18.51%, 18.79% and 1.54% of the reports used index systems from SASAC, SSE, SZSE, GRI and GC.

8.2 Qualitative Analysis

The statistical description above somehow reveals the fact that more companies in China are engaging into CSR reporting activities. The number of disclosed CSR reports has been increasing since 2006 (Chen 2011). In light of the percentage of the reports that are published by SOEs and CSOEs, those Chinese big companies are considered to take more responsibilities and of course conduct more audits. Another favored trend also observed is high intention of conducting CSR audits and publishing CSR reports in environmentally sensitive industrial sectors. However the increase or the advantage in terms of number is not the only thing expected to see. Quality also matters.

The quality of CSR reports are not balancing in light of the content, number of pages, relevant reporting standard or guideline, or if the report is verified by a 3rd party or not (GoldenBee 2011). Some improvements are observed. For example, the number of reports that adopt relevant standards or guidelines has been increasing. However in general, the content of disclosed reports is relatively unbalancing, simple and superficial with a narrow scope. Some stakeholders such as employee, community and government gain more attention in the reports, while some others such as consumers gain less. It is also found that negative CSR performance is barely mentioned in the reports, while positive contribution dominates the content. Meanwhile a comparison among three aspects of sustainability including economy, environment and society shows that more attention is given to the latter one while former two are less focused.

Similarly in the survey conducted by KPMG in 2011, it is pointed out that an increase of number of CSR reports has been seen in the past few years in China, however the quality of the reports is still unsatisfactory and far behind the level of European countries' (KPMG 2011). Particularly the quality of communication, one of the two indexes that are used to evaluate the quality of reports, is below the middle level. This leads to the situation that the quality of CSR reports in China are identified as *'Getting it Right'* as shown in *Figure 8-1*. It means that the companies in China are generally taking the right track; however at the current stage, are still conservative about disclosing the information regarding CSR performance. This is also one of the factors causing the poor quality of CSR reports in China.

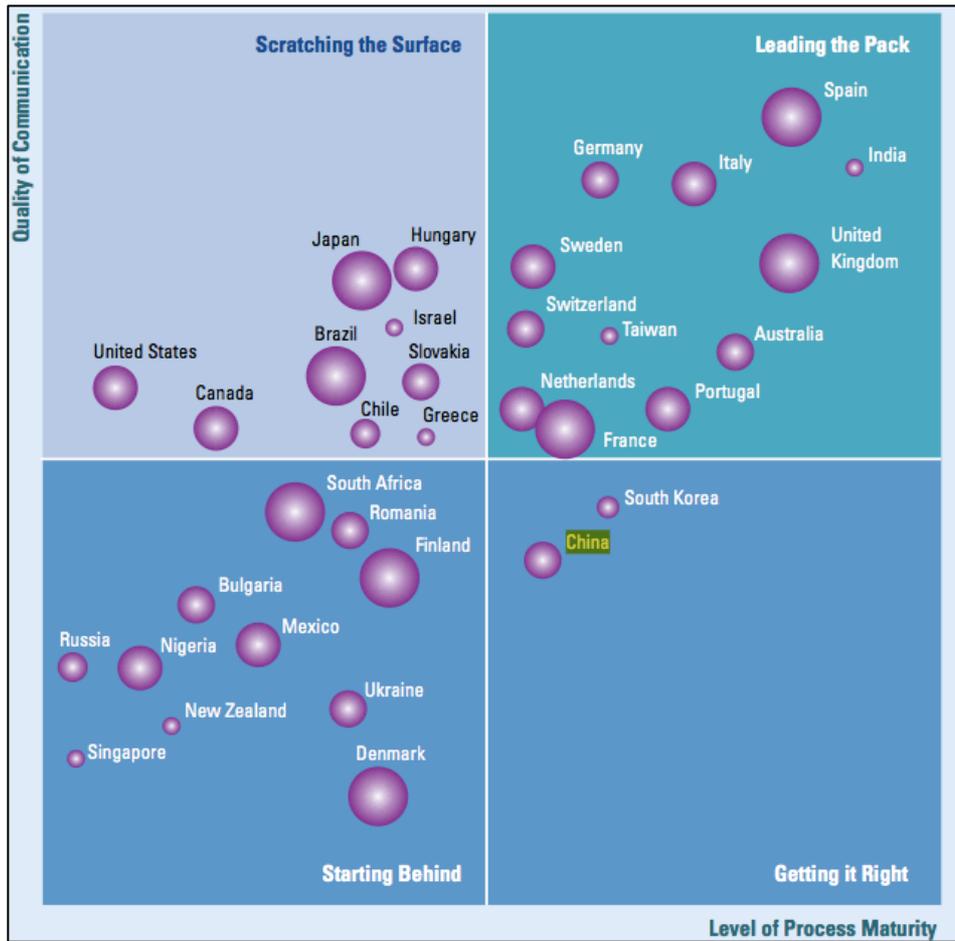


Figure 8-1 The Quality of CSR Reporting by Countries

Source: KPMG 2011

8.3 Chapter Remark

Since the CSR report is deliverables of CSR audit or the final step of CSR audit, looking at the quality of CSR reports can somehow (from a reverse angle) reflect the quality of CSR audit or the attitude of disclosing the result of CSR audit. Hence it is necessary to analyze the causes of this situation, which could be categorized into external and internal ones.

Externally the lack of a universal guideline or standard does cause the unbalancing information disclosure in CSR reports (Chen 2011). Even though there are some guidelines or standards that have been published, the non-clearance of measurement index system, depth of information disclosure *et al.* may still cause the confusion, especially to those non-professionals from relatively smaller companies. This type of impact may start from the very beginning of audit since no clear procedure to be followed for auditing or reporting. Lack of legal supervision on CSR audit and information disclosure in China is considered as another external factor. As mentioned above, some initiatives, standards or guidelines have been created in China, but majorly are not mandatory. This leaves a blank space for some of the companies to perform for their own interest. Moreover to what extent CSR information

should be disclosed also responds to the demand under economic market mechanism. China is still a developing country, and doubtlessly economic development is almost the top priority. The need for CSR information by the public in this big context, is way after the public needs for other information such as financial performance.

In addition to external causes mentioned above, internal factors to some extent accounts for more. Since the wide scope and unclear definition of CSR, different understandings might be held inside of those companies (Chen 2011). Those thoughts, unfavorably, sometimes are even biased. For instance some fashion words such as charity might be understood as the majority of CSR; and under this circumstance, all need to be audited and reported is how much the company have donated. This trend of turning CSR into just a fashionable buzz word but barely knowing the true concept among some Chinese companies, partially result in the unbalancing and low quality of disclosed CSR reports. Moreover and more importantly sometimes, cost is one of the factors causing the superficial and unbalanced information disclosure. This cost here is a generalized concept that includes the cost of auditing, reporting, and more sensitively, the cost that company should pay due to information (especially negative) disclosure. The latter one, in particular, is a crucial factor that companies should consider when deciding what information should be published. It usually makes those companies conservative, reluctant or unwilling to seriously treat the audit and reporting, finally leading to the unbalancing and poor quality of disclosed reports in general.

9 Case Study: Focusing on Supply Chain CSR Audit Practices

In this section, two cases of supply chain CSR audits that are carried out in China will be studied in a compare and contrast fashion. These case studies will give a close look at how the most typical CSR audits in China are carried out

9.1 Case 1

9.1.1 Audit Consigner

CSR audits in Case 1 are requested or required by Sony Ericsson Mobile Communications AB (hereinafter referred to as 'SEMC', and it is known as Sony Mobile Communication after January 2012) with its registration address in Sweden. It is a world leading, multinational company of mobile phone manufacturing, which holds a well-known mobile phone brand – Sony Ericsson (known as Sony after January 2012). SEMC, as stated on its webpage, has set up strong commitment to corporate sustainability (SMC). It strives to achieve its commitment by focusing on six major aspects, including provision of sustainable products, prevention of environment by banning certain substances, reduction on product carbon footprints, provision of products that meet international safety standards and health regulations, recycle programs for end-users, and a social, ethical and environment responsible supply chain. Especially with respect to SEMC's supply chain, supplier environmental requirements and supplier social responsibility code have been developed to manage suppliers' practices and ultimately to achieve the goal of green supply chain. Meanwhile SEMC is also a part of 'Sony Green Partner' program in which higher requirements are set up for its suppliers. For instance the internal code of SS-0259 for environment-related substance control, which is even stricter than European RoHS (Restriction of Hazardous Substances Directive), is applicable in this program (Sony 2012). Through the supply chain, its effort on CSR performance also could be seen in China. In 2011, both Sony and Ericsson, shareholders of this joint venture at that moment, ranked top 50 in Fortune China CSR Ranking 2011-Multinational in China (Fortune China 2011).

9.1.2 Auditor

The auditor who is designated to perform the work is an internal employee from SEMC headquarters in Sweden. He is a very experienced CSR auditor especially in supply chain, and his title in SEMC is *Specialist of Ethics & Supply Chain CSR Sourcing & Partner Management Operations* (hereinafter referred to as 'chief auditor'). Mostly CSR audits for SEMC's suppliers in China are carried out or at least dominated by chief auditor. Sometimes but not very often, trainee CSR auditor, who is also from SEMC, may take the main job, but still under the supervision of chief auditor. In that case CSR audit team consisting of two persons will visit China for conducting CSR audit.

9.1.3 Auditee(-s)

The company audited by SEMC is Nolato Mobile Communication Polymers (Beijing) Co. Ltd. (hereinafter referred to as 'Nolato Beijing'). It is a subsidiary business of Nolato Group, also a Swedish corporation. Just like most of other Scandinavian companies, Nolato Group also has

high commitment to CSR. All its three corporate basic principles including *'we are professional, we are well organized and we are responsible'* can somehow reflect this commitment. Since 2008, Nolato Group has been disclosing its annual sustainability report under the framework of GRI (Nolato 2011). In its 2011 report, it also addresses the great importance of implementing CSR in its China division, which accounts for around 70% of its global employee. So far some fruitful result has been observed in its Chinese operation. Since 2010, Nolato Beijing has been obtaining the certificate of OHSAS 18001 and ISO14001. An extension of group's commitment on sustainability also has already been seen in its supply chains, and a program of training CSR auditors in China has been on. These efforts and contributions put on corporate sustainability also helped Nolato Beijing earn the award of 'Sony Green Partner' in 2011.

9.1.4 Standards or Guidelines Adopted

The criteria that are adopted by chief auditor is *'Supplier Social Responsibility Code'* developed by SEMC (hereinafter referred to as 'the code')(SEMC 2009). The code specifies the requirements to all SEMC suppliers on the following three aspects, including: *'compliance with laws and regulations, basic human rights and safety requirement'*. Under the requirement of basic human rights, it is subdivided into *equal employment opportunities, fair employment arrangements, child labour, and apprenticeship programs*. With respect to safety requirement, SEMC majorly focuses on *safe and healthy working conditions, medical care, facility safety, chemical safety, and housing conditions*.

9.1.5 Audit Methods

SEMC carries out their audits to Nolato Beijing around twice a year, with each time lasting around one day.

A checklist is applied by SEMC chief auditor to facilitate the audit. It comprises of three major aspects including employment condition, health & safety, and supply chain, respectively having 15 indexes, 9 indexes and 3 indexes under each. Four different colors are used in this checklist for distinguishing different status of each index, with the black standing for *'not assessed'*, the red standing for *'not compliant'*, the yellow standing for *'not compliant, but improvement areas identified, corrective actions ongoing'* and the green standing for *'compliant'*. The audit each time generally covers all the 27 indexes, however extra attention might be given to different aspects every time.

The procedure of audit by chief auditor generally comprises of site tour, document review and personnel interview (including management interview and operational employee interview). The sequence of these three methods is not fixed, and the weighing given to each step might be different depending on the purpose of audit. As reported by the personnel from Nolato Beijing, sometimes the majority of time is spent on site tour, but sometimes document review and personnel interview might dominate the audit.

From Nolato Beijing side, the major departments that may get involved or support the audit work are quality management department, facility department, HR department, and of course EHS department. Very often, according to Nolato Beijing, a CSR specialist from Nolato Group also joins the SEMC audits. It is said that no special preparation is done by Nolato Beijing before the audit, and everything seen by the auditor can reflect the real situation.

9.1.6 Result Communication and Follow-up

Every time after the one-day audit, a closure meeting is held between SEMC auditors and all function units of Nolato Beijing, which is open for discussion and information exchange. It is a meeting where chief auditor can share the audit result. Apart from each finding that is detailed in this meeting, expectation on each finding will also be put forward by chief auditor. In this case no formal CSR report is prepared for the auditee. The findings that are identified in the audit are directly recorded on the checklist and presented to the auditee. In the meeting, or in the process of taking improvement or corrective actions, chief auditor also frequently shares his experience and suggestions on how to practically achieve the improvement goal.

9.1.7 Supplementary Description

As stated by both SEMC chief auditor and Nolato Beijing personnel, this supply chain CSR audit plays a supportive role. It aims for continuous CSR improvement in Nolato Beijing, rather than just simple result check. This is also why chief auditor from SEMC prefers to call this as CSR assessment instead of CSR audit. As mentioned above, in this case auditor does not prepare formal CSR audit report with findings and timeframe for corrective or improvement actions. It is perceived and suggested by chief auditor as a learning process that is open for dialogue between auditor and auditee, and ultimately propulses the enhancement of CSR. From auditee side, Nolato Beijing is very comfortable with, and feels benefited from the audit of Sony Ericsson style. They are willing to take, and actually have already done, some actions to enhance CSR performance based on the suggestions from CSR audit.

9.2 Case 2

For business confidential concern, the real names of relevant parties in Case 2 will not be provided.

9.2.1 Audit Consigner

In this case the requirement of conducting CSR audits was put forward by a Scandinavian company that provides indoor and outdoor lighting (hereinafter referred to as 'N company'). It has been striving to be a leading supplier of high quality lighting products but with low price. Apart from that, being social responsible is its another vision. It aims to help enhance environment and social condition in the world. In order to achieve this goal, it has been engaged in some environmental projects, such as carbon neutral project, as well as some social projects, such as cancer protection project. Meanwhile N company also extends its CSR commitment to its major suppliers. A code of conduct has been developed to manage suppliers' practices and regular CSR audits are carried out every year.

9.2.2 Auditor

A joint team is commissioned by N company to perform the CSR audits in China. It comprises of a Scandinavian country's Consulate General in China (hereinafter referred to as 'the consulate'), as well as a world leading environmental consultancy (hereinafter referred to as 'the consultancy'). One employee from the commerce department of the consulate, and two consultants (one is environmental consultant and another is industrial hygienist) from the consultancy join the audits.

9.2.3 Auditee(-s)

N company's six OEM factories in China were audited twice in 2009 and 2010. Four out of the six factories are located in Guangdong province and another two are located in Zhejiang province, China. These six factories are all small private businesses, with employee number ranging from around 30 to around 120. Although the size of these companies are not so big as that of multinational corporations, still they also have some common sense on CSR due to the pressure from their customers. Most of them lack the systematic management of CSR, but have already obtained the certificates such as OHSAS 18000, ISO14001 and RoHS, etc.

9.2.4 Standards or Guidelines Adopted

Besides the basic Chinese laws, regulations and standards, the code of conduct of N company is also adopted as criteria during the audit. It majorly focuses on nine aspects including *child labour, forced labour, discrimination, freedom of association, health and safety, working conditions, product responsibility, the environment, business ethics*.

9.2.5 Audit Methods

The audits are carried out on the annual basis, with each site lasting for one day.

A comprehensive audit checklist is developed by following the aspects and scope of the code of conduct. More than 200 indexes or items on the checklist should be checked or verified. Three colors are used to mark the status of each audited index or item, with green standing for *'fully implemented'*, yellow standing for *'partially implemented'*, and red standing for *'not implemented'*. This checklist also includes the previous audit result so that a comparison could be made.

During the audit, two consultants from the consultancy are responsible for auditing parts of *'health and safety'*, *'environment'* and *'product responsibility'*. A consulate personnel is responsible for auditing the remaining six aspects. For obtaining the needed information, methods including personnel interview, document review and site tour are all used at each site. During the interview with relevant personnel, especially those operational employees, site management members are required to withdraw.

9.2.6 Result Communication and Follow-up

After the audit at each site, a closure meeting is held between all auditors and site managers. Auditors would firstly introduce the general audit result, and later details each finding of the sit. Site management then would also comment in response to the identified findings, so that information could be fully exchanged. Around two weeks after the on-site audit, a CSR report will be prepared and submitted to N company. The report contained the description of all the identified findings, brief recommendations for findings, and expected working hours that are needed for each correction or improvement action. Accordingly, N company also shares the report with those audited factories.

9.2.7 Supplementary Description

The majority of final reports of these audits are occupied by identified findings and corresponding recommendations. No speical attention is given to the improvement that has been done by these auditees. During the process of interview, the auditees do not clearly express their attitude to the way that CSR audits are carried out.

9.3 Comparison, Contrast and Discussions

9.3.1 Similarities and Differences

Both two cases represent the typical CSR audits that are widely taking place now in China. They share some common grounds, but also some differences. It is necessary to describe its similarities and differences before further discussion. The audits in both cases are supply chain CSR audits in China, which were proposed by MNCs from developed countries, or more exactly, Scandinavian countries. Both audit requestors have developed comprehensive CSR management systems in their supply chains, within which codes of conduct also have been established for suppliers. These codes of conduct are used by auditors as criteria in both cases. With respect to the audited entities, they are all located at the relatively developed regions in China, Beijing in Case 1, and Guangdong and Zhejiang in Case 2.

However some differences are also seen in these two cases. In Case 1 an internal team from the audit requestor, SEMC Sweden, undertakes the audit job in China. In contrast the audits of Case 2 are carried out by an external 3rd party audit team that is commissioned by its client – N company. Meanwhile in Case 1 the auditor who literally visits the site and carries out the audit is a Swedish; whereas in Case 2 the auditors are Chinese, although their employers are either a Scandinavian country's Consulate General in China, or a world leading environmental consultancy's China office. The differences of two cases also could be seen from the attribute of auditees. In Case 1, the auditee, Nolato Beijing, is a part of a MNC's operation in China, with its headquarters in Sweden; or in another word, the auditee in Case 1 is a foreign investing company in China. However in Case 2, all the six auditees are Chinese local private SMEs.

9.3.2 CSR Commitment of Scandinavian Companies

The two cases described above indicate that these two Scandinavian companies have practically extended their commitment on CSR to their supply chains in developing countries. They both put forward their requirements or expectations of CSR on their suppliers in China. This finding actually also corresponds to the conclusion made by Strand in his study (Strand 2008). He points that, based on the research of four Scandinavian companies' CSR practices, the Scandinavian companies have developed practical CSR management systems for their suppliers if they have operations in developing countries. It is also addressed that the implementation of CSR by Scandinavian country companies with their suppliers in developing countries, are generally achieved on the basis of mutual-trust and collaboration. CSR audits based on this type of open and trustworthy relationship is not simply used as a tool for negotiating the price with their suppliers. However it usually serves as a method for collaboratively enhancing the CSR performance of their suppliers, or partners, as preferred by Scandinavian countries. And the finding in this study also very well supports this viewpoint. In both cases of this study, suppliers, or audited entities in the context of audit, do not see any pressure of terminating or impacting the current or potential contracts from the audits of those Scandinavian companies. Especially in Case 1, both auditor and auditee clearly stated that the audits play a supportive role to help the suppliers to pursue a better CSR performance rather than a role of leverage in future business negotiation. Also it is noticed from the Nolato sustainability report that no surprising audit will be carried out by recognizing the importance of mutual trust and collaborative relationship in the process of implementing CSR (Nolato 2011). Audits that take place in this context will definitely somehow contribute to the improvement of suppliers' CSR implementations, however if, or to what extent, this final goal

of the audits could be achieved, is still uncertain and impacted by the factors such as auditor, audit types, audit methods and auditee itself, etc.

9.3.3 Process of CSR Audit

Before looking at what factors can affect CSR audit and final goal achievement, developing a simplified model of CSR audit is necessary. The process of CSR audit is actually a process of CSR information input, processing and output where basically CSR auditors play a dominant role. Information input generally means that auditors strive to obtain the relevant CSR information from audited company. It could be achieved via the methods including personnel interview, document review, and site observation/tour, which have already been seen in both of our case studies. The aim of this step is to obtain the valid information that reflects the real situation of CSR performance, and later processed by auditors. Information processing or screening means a step that auditors decide what information is useful and what is not. It is a process that requires the subjective decision made by auditors although there might be some guidelines or standards in place. Once the information is well obtained and processed, the output of information will follow. The information that represents the audit result could be outputted in different ways, such as a closure meeting, a formal report, an email, or a conference call. Regardless in what way the information is outputted or delivered, the final recipient of the information is expected to be the audited company. It is the auditee that decides how to use the outputted information for potential improvement of CSR performance. A simplified CSR audit process based on the literature review and case study is illustrated in *Figure 9-1*.

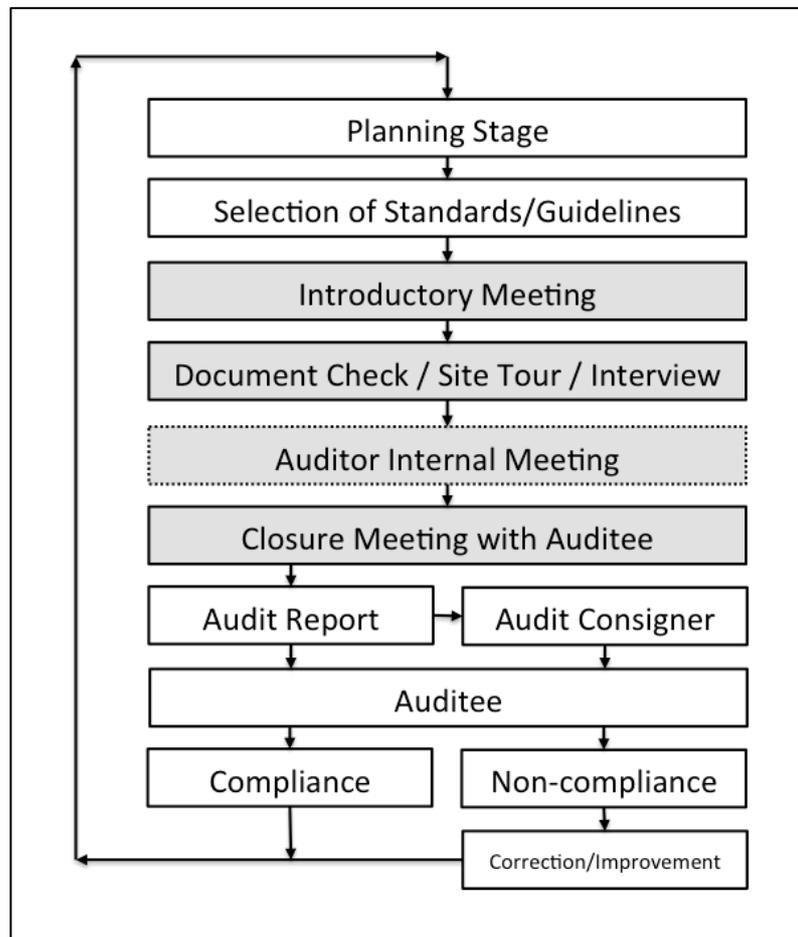


Figure 9-1 The Simplified Model of CSR Audit Process

9.3.4 Impacting Factors of On-site Audit

In the step of CSR information obtaining on-site that is usually done through document review, site tour and personnel interview, the final aim is to obtain the valid information that can reflect real situation, just as mentioned above. This aim however cannot be easily achieved even though the audit is done on the basis of mutual-trust relationship between suppliers (auditees) and clients (audit consigners). It has been perceived that CSR management in supply chains in these two cases are both implemented by recognizing the collaborative and trustworthy relationship. However when the 3rd party, or the external auditor steps in, it could be another case. In the audit carried out by 3rd party auditor, just as the situation shown in Case 2, the difficulty of obtaining valid information or the risk of obtaining invalid information might be higher than that in the audit conducted by MNC's internal audit team. In the triangle of auditor, auditee, and audit consigner (client), the communication between auditor and client, as well as between auditee and client is considered more sufficient than that between auditee and auditor. This is majorly due to that auditor-client relationship, and auditee-client relationship, both reflect the partnership from the economic perspective, which however is not clearly and directly seen from the auditor-auditee relationship. In one audit, both auditor and auditee will obtain their perception about the purpose of coming audit. Whether these two perceptions could match with each other or not, will somehow impacts the information input process. Moreover even if auditor and auditee perceive the same purpose of audit, however the way that audit is carried out also matters. External auditor usually has its own standard procedures to carry out audit. This, in most cases as perceived by auditees, is professional and formal. But this also might lead to the skeptical concern about the real purpose of CSR audit. In Case 2, when auditor required to conduct an interview with operational employees, however without the companion of management members, auditee showed nervousness and still insisted to accompany although they had already been informed by the client that the audit result would not directly impact contract status. Then in the 2nd year when the company was audited for the 2nd time, very easily they agreed on the private interview. However the selected interviewee clearly stated that they had been told by the company management not talk too much. In light of this, although auditees in Case 2 all perceived that the CSR audit was only for performance enhancement and they had not pressure on the contract status, the involvement of 3rd party and the manners of how audit was conducted might still raise their concern about the real purpose of CSR audit. Then this concern could sequentially lead to ineffective information obtaining for CSR auditors.

It is also understood that the same situation might also happen in the audit conducted by MNC's internal team. Not all audit manners will be preferred by the auditee, and concerns also could be generated in this context. However it is suggested that the audit conducted by internal audit team could serve as a better place for open communication between supplier and its client, since the existence of economic ties apart from pure CSR auditor-auditee relationship. This is more obvious when the long-term partnership has been or will be established, and this type of partnership can facilitate the exchange of opinions when any concern arises. Auditee could confirm or erase its concern directly from the discussion with its auditor, or client in this context, which however cannot be similarly and easily done when 3rd party is conducting CSR audit. In the 3rd party audit, the auditor carries on its duties for the interest of client firm. This in most cases is well perceived by auditees, and hence auditees show full respect to auditors at least in terms of politeness. It is more particular in the context of Chinese culture and has been widely noticed in case studies and interviews. But even with this politeness or respect to auditors, auditees always have the concern, more or less, about the

information quality that is processed by 3rd party and finally delivered to its client. One of the auditees from Case 2 privately indicated its concern that if the auditor would magnify the identified findings so that the value of 3rd party auditor could be fully reflected in front of client firm. Although this concern was put forward, it could be seen that also this concern made auditee very prudent during the audit, and it was this prudence leading to the relatively less-open discussion. This is considered unfavorable to solve some other concerns, such as the concern mentioned in last paragraph. Hence when CSR audit is conducted by 3rd party auditor, trust-worthy and collaborative relationship is not only needed between auditee and client, but also between auditor and auditee. However the establishment of this type relationship between auditee and auditor is not so easily achieved especially when most of CSR audits last just one or two days. In this sense, the 3rd party audit is less effective in terms of information exchange and elimination of auditee' certain concerns. It has to be addressed here that this finding is only valid based on the precondition that a mutual trust and collaborative relationship has been built between client and auditee. If there is no such relationship between client and auditee, the audit will be less effective in any way.

Apart from the audit type that is considered as a major factor in the process of information input/obtaining, some other factors such as auditor, audit methods and auditee itself also could not be overlooked. It is found that an experienced auditor usually could improve the quality of audit; and from the auditee side, they also prefer to share more information with experienced auditors. In Case 1 auditee clearly shows their respect to chief auditor, as well as the gratefulness for the experience shared by him. They even show their concern about future audit if this chief auditor retires. A situation observed in Case 2 also supports this finding. Accordingly there was a senior CSR consultant from the Consulate General joining the two out of six audits in 2010. The audits were dominated by him and more useful information was collected actually. Besides as mentioned above auditee usually shows respect to auditor at least in terms of politeness, however this respect also differentiates when treating young/less experienced auditor and old/more experienced auditor. Moreover big audit team may cause the nervousness of auditees. This is identified majorly in Case 2, where audit team comprises of three to four auditors. Auditees have clearly shown that big team could cause high pressure for them, which is considered not favorable in the process of obtaining information.

Regarding audit method, it directly affects the process of obtaining information. In both two cases, the methods including document review, personnel interview and site tour all were used. However it is found that in Case 1 audit emphasizes on the depth of CSR issues/performance, whereas in Case 2 audit is more focused on the width of CSR scope. Given that it is perceived in two cases that the ultimate goal of CSR audits is to enhance future CSR performance, the method that is used in Case 1 is thought more contributive to achieve this goal. However Case 1 method sets higher requirement for auditors, which might not be needed in Case 2 method. Case 2 method is more like a 'tick-box' method. It presents the general picture of CSR performance, and also gives out the simple recommendation for each finding; however if the result is directly used for practical improvement, the information might not be sufficient enough. It is also found that, in Case 2 study, that the avoidance of official and professional language can facilitate the information obtaining. This finding is generated due to the observation when young and less experienced auditor conducted audits. They prefer to mechanically follow the standards or guidelines, by using the phrases such as 'according to..., your company is supposed to do ..., but it is observed that your company has not done...'. Use of this type of very official phrase is not seen helpful to gain more information from auditee. They may treat this as a signal of finding-oriented audit and

consider auditor as inexperienced. Hence it could be found that audit method also serves as a factor that could impact the information obtaining.

The attribute of auditee is also a factor impacting CSR audit, especially the information obtaining process. In these two cases, the auditees are all located at Chinese developed regions, where CSR has been a fashionable word for many years. In Case 1 the auditee is also a Swedish company where the systematic CSR management policy has been developed and has penetrated to its Chinese operation. This auditee, as well its employees, show clearly higher awareness of CSR concept than those from the auditees of Case 2, which are all Chinese local private SMEs. This high awareness of CSR is considered as a positive factor for disclosing valid CSR information when CSR audit is conducted, just as shown in Case 1. Besides it is also suggested that the willingness of CSR information share with auditors is positively correlated with the CSR performance of each auditee. This finding could be easily understood as that the auditee is willing to present its superior CSR performance to its client.

9.3.5 Impacting Factors of Correction and Improvement

Once CSR audit is basically finished, if the improvement or corrective actions could be done by auditee would be another concern. Firstly to what extent the audit result could be communicated to the auditee affects the potential improvement or correction. It is found that in the 3rd party audit, auditor and auditee show a less communication especially after on-site audit. Auditor in this context is only responsible for its client firm, hence in most cases the audit result or report will be directly submitted to its client firm. Then finally the client may communicate with the auditee about the audit result in certain ways. However since the lack of direct communication of 3rd party auditor and the auditee, the understanding to audit result and suggestion might not be so thorough. In contrast, the situation in Case 1 shows a more frequent communication between auditor and auditee, which is considered more contributive to help auditee to perceive the audit result and expectation on future enhancement. Secondly based on the perceived audit result and expectation, some other factors also impact the further implementation of CSR. In both two cases, there is no direct pressure for auditees about any direct impact on contract status. Hence if or not to carry out the improvement or correcting actions is majorly decided by auditee itself, but still much related to the pushing power from their clients. Moreover when audits are carried out by experienced auditor and the communication between auditor and auditee is more often, a high likelihood could be seen for improvement or correction of CSR. As shown in Case 1, chief auditor has close connection with the auditee and practical experience is shared by him to help the auditee to enhance CSR performance. The auditee has clearly shown the appreciation for this help and the high willingness to take actions. In Case 2, some suggestions or recommendations are also made by auditors in audit reports, however in a very superficial way. Plus the lack of direct communication between auditor and auditee, auditees do not show such high interest on improvement and corrective measures as that in Case 1. Of course it is also understood that whether or not to implement follow-ups could not be isolated from the auditee's awareness of CSR. Doubtlessly the company that has higher awareness of CSR is more likely to adopt certain measures provided by auditors. When auditee has relatively lower self-awareness of CSR, the role of experienced auditor who can provide detailed and practical suggestion could be more significant. In addition the perceived cost for implementing improvement and corrective measures is also a considerable factor for auditee. In Case 2 auditors used to be consulted by auditee about financial budget as well as the time cost for a certain corrective action, and the cost of these two types actually account for a high weighting among all the factors. Hence the decision on further corrective or improvement actions is a result under the combined effect of above-mentioned factors.

9.3.6 Culture Matters

Besides the factors identified above, the fact that CSR development in China is far behind that in developed countries also affects audit process and further improvement. This effect could be more obvious when auditor comes from developed countries. Different perception on CSR due to different background may cause the divergent opinion on certain CSR issue, which is not helpful for smoothing the audit process and implementing further improvement and corrective actions. The issue of working hours in China, for instance, is a typical CSR issue that developed countries auditor cannot understand and cannot agree. Due to the shift system in some Chinese companies, the working hours of employees might be in excess of standard working hours within short period of time, however still in compliance with the standard if put in longer time interval. The same situation is observed in both Case 1 and Case 2, however since the auditors in Case 2 are all Chinese, the situation is more easily understood. Also it is found that even some issues has been clearly identified, however in the current situation in China, overnight change cannot be expected. As observed in Case 2, two employees under 16 were hired by the auditee. The auditee clearly stated that it was not so difficult for them to lay off these two workers and hire new ones, however it might cause even bigger social problem if they did so. These two kids under 16 were both the only available manpower at their home, the family beg the company to take their kids. If these two kids were laid off, they would not go to school anyway and even might cause other social problems. Hence in light of this it is a dilemma to tell if the auditee's behavior social responsible or not, even though their behaviors were definitely in violation against the relevant standards that were set up by its Scandinavian client. The expectation for change in this context might not be easily achieved, and that is also why in the 2nd round audit, those two child labours were still hired.

9.3.7 Audit Scope and Depth

In the process of CSR audit, the selection of relevant standards, guidelines or checklists acutally has already determined the scope of CSR audit. Given the constraint of audit time that usully lasts less than two days per site, the wider coverage of CSR audit usually leads to shallower depth. In the above two cases, it is found that audit scope in Case 1 is narrower than that of Case 2 (as shown in *Table 9-1*). The CSR audit conducted by SEMC in Beijing even does not cover a very important aspect of CSR - environment performance of the auditee. In addition to CSR audit as described in this research, separate environmental audits are conducted by other personnels from SEMC. When CSR audits are carried out by the chief auditor from SEMC, special focus is given to different aspects at each time, although every time the audit covers all the aspects listed in checklist. In contrast, CSR audits in Case 2 have much wider scope with the coverage of more than 200 indexes. This number in Case 1 audit is only 27. Audits in both cases usually last only one day, hence it is observed that CSR audit in Case 1 goes deeper than that in Case 2, meaning a more thorough understanding and description of certain CSR issues, as well as more detailed recommendations for solving those issues. This is considered as an advantage of CSR audit in Case 1; and this advantage could be magnified if a long-term auditor-auditee relationship could be established, which is exactly an advantage of internal audit.

Table 9-1 CSR Audit Scope in Case 1 and Case 2

Key elements of CSR	Organizational management	Environment	Human rights	Labour rights	Business ethics	Product responsibility	Supply chain	Community

Case 1	✘	✘	○	○	✘	✘	○	✘
Case 2	✘	○	○	○	○	○	✘	✘

9.3.8 Internal Audit vs. External Audit

Based on case studies and literature review, some pros and cons of two major audit types in supply chain CSR audit have been seen. Advantages and disadvantages of internal audit and external audit are summarized as below in *Table 9-2*.

Table 9-2 Pros and Cons of Internal and External CSR Audit

	Internal Audit	External Audit
Pros	High potential for long-term cooperation; Tailored audit procedure; Lower communication cost;	Indepence and high credibility; Strict audit procedures and steps; Might be more professional;
Cons	Possibility of biased result;	Higher communication cost; Higer risk of accessing valid information;

Source: Mont 2011

10 Conclusion

So far the research questions have been answered through multiple ways. Different methods including literature review and case studies were used to address the questions that were put forward at the beginning of this research.

Through this study, it is found that both the stakeholder theory and the principal-agent theory could be used to explain the emergence and development of CSR as well CSR audit. As the economic development and social evolution, and under the combined effect of external pressure and internal awareness, corporate is not just a place where shareholders can maximize their own profit. More than that, corporate should take consideration of those untraditional stakeholders, such as employees, suppliers, communities, etc. and try to balance the relationship of profit maximization for shareholders and interest generation for all stakeholders as a whole. In light of this, corporate is not only responsible for fiduciary economic duty, but also the fiduciary social duty that is entrusted by the society or the public. Then in order to measure the implementation of this new fiduciary duty, or in another word, CSR performance, the emergence and the development of CSR audit was witnessed.

The taking place and the development of CSR audit cannot happen without at least two actors of auditor and auditee, and China is also not exceptional. The auditor in Chinese CSR audit industry comprises of internal audit teams of MNCs, international audit firms, local audit firms, NGOs and governmental departments, etc, among which MNC internal audit teams and international audit firms account for the major share. From the auditee side, it is found that, since the relatively downstream position of China in global supply chain, MNCs' suppliers or OEMs in China are the places where CSR audits are mostly carried out. Besides as the unstoppable trend of adopting CSR concept into corporate management, some Chinese companies, especially SOEs, CSOEs and some listed companies also periodically conduct CSR audit and disclose information regarding CSR performance. To do so is majorly aiming to increase the reputation and competitiveness in both domestic and international markets.

In the past a few years, the number of CSR audit and disclosed CSR reports has been constantly increasing. More and more companies are getting involved into the activities of conducting CSR audits. However the quality of those CSR reports reveals that the information contained is unbalancing, superficial, and with narrow scope. It is perceived that external factors such as lack of universal CSR standard or guideline to guide the CSR audit and report editing partially leads to the above-mentioned situation. Internally, the wide scope of CSR definition itself, as well as the different perception to it by different companies, leaves the corporate large space to conduct CSR audit and disclose CSR information. Moreover the perceived cost of conducting and disclosing CSR information is also a critical factor that corporate should consider.

A close looking into the CSR audits that are performed in China depicts the general procedures and methods for CSR audits. Although the auditors or auditees might be different, a general pattern is still observed. CSR audit in China basically comprises of the steps of planning, selection of standards or guidelines, on-site audit (interview, document review, site walkthrough), result communication or reporting. Two case studies of supply chain CSR audits, which is one of the most representative type of CSR audits in China, detail the audit practices, and also define the impacting factors for either audit process and potential

corrective/improvement actions. Based on the case studies that comprise both internal and external audits, it is found that if there is a mutual trust and collaborative relationship between suppliers and their clients, internal audits that are carried out by clients' internal teams are relatively easier accessible to information during the audit. It is also found that internal audit has advantage to establish the long-term partnership between auditor and auditee, which would be helpful for further CSR enhancement. Besides, the auditor's cultural background and experience, as well as auditee's awareness and the attribute of auditee, are all considerable factors that should be taken into account. For instance, it is found that, based on the case studies, more experienced auditors who provide with more concrete recommendation are more likely to help the auditee to adopt the suggestion and enhance CSR performance. In China, since the development level of CSR is far behind that in developed countries, some gaps of perceiving CSR issues might be encountered by auditor and auditee. Finally, it has to be addressed that, CSR audit is not a process impacted by any single factor mentioned above. The combined effect of all the impacting factors including audit types, auditor, auditee, cultural difference, etc. shape the audits that we see in China.

Since the emergence and development of CSR audit in China, its contribution as well as the contribution of those standards/guidelines have already been widely seen. The fruitful results could be seen from macro-level to micro-level, from the awareness enhancement to implementary improvement. Those international standards/guidelines and corresponding audits that originated from developed countries have already to wide extent been adopted by big MNCs in developed countries. Those MNCs sequentially transform those international standards/guidelines into corporate policies or rules (e.g. code of conduct, or standard procedure), requiring their suppliers in China to comply with. Regardless voluntary or not, or probably in order to maintain or obtain more contracts, those suppliers in China increase their awareness regarding CSR and to certain extent take more social responsible actions. It has to admit that in developing countries such as China, the implementation of CSR by most SMEs is more for economic concern at the initial stage. But very practically those corporate policies or rules facilitate the companies in China to take actions more easily, and corresponding audits enable them to know the gap pending improvement. When more and more players get involved in CSR activities, aggregate effect leads to the change at macro-level. Just as individual company that sits in their own supply chain, China is also at a relatively downstream position in the big supply chain – global supply chain, with the competitors of other developing countries. It is true that at the initial stage, China from a macro-level is resistant to the CSR initiative transported from developed countries. However since realizing that CSR will be an unstoppable trend, China starts changing its role from of passive player to proactive player, at least from the policy level and awareness level. Some Chinese standards or guidelines that extract the experience from international ones have already been witnessed. By directly adopting the international standards/guidelines, or Chinese standards/guidelines, more and more companies in China somehow regulate their operations and activities to a more social responsible level. In this context, external push provided by CSR audit or MNCs or developed countries is not the only factor driving CSR implementation in China. The increase of internal perception of the importance of CSR is also contributive to CSR implementation. Those international standards/guidelines could facilitate this process, by helping China avoiding detours on the track of implementing CSR. Now China even has already developed the CSR policy regulating the operations of foreign companies in China, who brought the concept of CSR and CSR audit into China around 20 years ago (Li 2010). Shifting from the passive CSR auditee at both micro-level and macro-level, to the rule setter of CSR policy targeting both Chinese and foreign companies in China, the contribution of international standards/guidelines and CSR audits can not be overlooked.

Although the contribution of CSR audit and international standards/guidelines have been acknowledged, some weaknesses or disadvantages are still perceived. From the macro-level, CSR audits could be used by developed countries as a trade barrier, as perceived at its initial stage. This is also why China issued CSC9000, which was aimed to be the Chinese SA8000 and erase the potential trade barrier generated by the requirement of conducting SA8000 audits. From the micro-level, companies that conduct CSR audit related with information disclosure (B2P audit in this study) and hence image building, may manipulate CSR audit as a tool for 'green washing'. The study above has already shown that the disclosed information in some CSR reports is unbalanced. Negative information is rarely disclosed whereas positive information occupies the major part of CSR reports. Moreover companies that conduct CSR audit especially in the supply chain (B2B audit in this study), CSR audit and its result might be used by auditor/audit consigner as price leverage in business negotiation. This type of CSR audit that is not for continuous improvement of CSR implementation might generate adverse impact. In addition from the practical perspective, the wide scope of CSR and CSR standards/guidelines concept sometimes may lead to the situation that CSR audits may only scratch the surface, which is not beneficial for the implementation stage of CSR. Also some conflicts might be seen in the process of CSR audits as well as international standards/guidelines adopted in China. This conflict could be the conflict between CSR auditor and auditee with different cultural background and perception to CSR; it also could be the conflict between international standards/guidelines and Chinese laws (e.g. in China free protest and demonstration is strictly controlled or even forbidden); this conflict also could be the conflict inside of audit consigner (e.g. the situation that CSR audit may lead to the cost raise while supply chain/financial audit may require the cost down). These weaknesses or disadvantages of CSR audits are not surprising to be seen, however instead of being obstacles on the way of evolution of CSR and CSR audit, they should be the places where more consideration should be taken and sequentially serve as catalysts for CSR development in China.

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