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Abstract

"Harmonious Society" was proposed by Chinese President Hu Jintao as early as 2005 as the Chinese approach towards development. This generated significant excitement among observers of Corporate Social Responsibility (CSR) who see CSR and Harmonious Society as sharing common objectives. This paper seeks to explore whether Harmonious Society will result in an increase in CSR engagement by Chinese firms. It does so by drawing up a list of actions that if taken by the government would increase the level of CSR in China and make Harmonious Society a relevant factor in the development of Chinese CSR. To do so, my paper develops a framework for studying the elements that affect the level of CSR by dividing causes of CSR into a societal "demand" side and a discretionary "supply" side. Understanding what drives the development of CSR allows us to understand what measures governments can take to influence the level of CSR through these elements. Using this framework, my paper also finds that CSR in China in the near future will be largely concentrated in SOE and is unlikely to be widespread in the growing private-sector of China.

Keywords

China, Harmonious Society, Corporate Social Responsibility (CSR)

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Mapping the Harmonious Society and CSR Link¹

By Geoffrey (Kok Heng) See

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Abstract: “Harmonious Society” was proposed by Chinese President Hu Jintao as early as 2005 as the Chinese approach towards development. This generated significant excitement among observers of Corporate Social Responsibility (CSR) who see CSR and Harmonious Society as sharing common objectives. This paper seeks to explore whether Harmonious Society will result in an increase in CSR engagement by Chinese firms. It does so by drawing up a list of actions that if taken by the government would increase the level of CSR in China and make Harmonious Society a relevant factor in the development of Chinese CSR. To do so, my paper develops a framework for studying the elements that affect the level of CSR by dividing causes of CSR into a societal “demand” side and a discretionary “supply” side. Understanding what drives the development of CSR allows us to understand what measures governments can take to influence the level of CSR through these elements. Using this framework, my paper also finds that CSR in China in the near future will be largely concentrated in SOE and is unlikely to be widespread in the growing private-sector of China.

¹ The author would like to thank Professor Thomas W. Dunfee for comments and guidance on the paper, and Professor Martin Asher and Professor Roger Smith for organizing opportunities to discuss this paper.

Introduction

The introduction of a “Harmonious Society” policy in China in 2006 by the Chinese Communist Party has generated significant discussion among observers of Corporate Social Responsibility (CSR).² Harmonious Society has generated excitement among scholars studying CSR because Harmonious Society is seen to share common objectives with Corporate Social Responsibility.³ It is suggested that Harmonious Society will raise awareness of CSR among Chinese companies leading them to adopt such practices.

This interest is supported by anecdotal evidence. Dennis Driscoll, Director of Beijing University Law School’s CSR Research Center, claims that there is almost one CSR workshop a day in China in 2007, and that requests for him to run workshops on CSR for corporations have increased tremendously since the introduction of Harmonious Society.⁴ China Daily, a major Chinese newspaper, also launched its 27th CEO Roundtable in 2006 under the theme of “corporate social responsibility and innovation.”⁵ An analysis of the public reports and statements of CEOs of leading Chinese SOEs since Harmonious Society also contributes to this belief that Harmonious Society and CSR are inextricably linked. In 2007, China Construction Bank released a report on its involvement in CSR. China Mobile, the world’s biggest telecommunications firm, also released its own CSR report. In the preface of the report, Chairman and CEO

² This policy will be referred to as Harmonious Society for the rest of the paper.

³ <http://www.bcccc.net/index.cfm/fuseaction/Page.viewPage/pageId/1905> (accessed March 11, 2008).

⁴ Interview with Dennis Driscoll by author on August 16, 2007 in Beijing, China.

⁵ <http://ceoroundtable.chinadaily.com.cn/cdrt/cdrt27/cdrt27.html> (accessed December 18, 2008).

of the firm Wang Jianzhou emphasized China Mobile's "triple-sided responsibilities" that included economic responsibility, social responsibility and environmental responsibility. An example of how Harmonious Society could potentially lead to CSR-like behavior is seen in Chelbi, a Chinese engineering consultancy. Vice-Chairman Xie Shaoguang talks about how Chelbi is now looking at how they can conduct social impact analysis of their engineering projects, as he believes that Harmonious Society will require them to change their practices in the future.⁶ The World Bank Private Sector Development blog noted in 2006 an "emergence of Middle Kingdom-style CSR that is backed by government as supporting a "harmonious society" and by local firms as a business opportunity."⁷

This paper seeks to explore whether Harmonious Society will result in an increase in CSR engagement by Chinese firms. It does so by drawing up a list of actions that if taken by the government would increase the level of CSR in China and make Harmonious Society a relevant factor in the development of Chinese CSR. The actions described are bounded by a time frame of four years, which is the duration of Hu Jintao's presidency. However, for reasons explained in the next section, this policy is likely to continue past the current President. This paper does not make claims about the efficacy of CSR or the level of CSR that will emerge, although by examining the possible policy measures that can be taken, it emerges that the development of CSR could be limited to specific firm

⁶ Interview with Xie Shaoguang, Vice-Chairman of Chelbi in May 22, 2007 in Beijing, China.

⁷ http://psdblog.worldbank.org/psdblog/2006/09/csr_stirrings_i.html (accessed May 22, 2007),

types in China. The definition for CSR used in this paper is “discretionary spending in furtherance of an explicit measurable social objective consistent with relevant social norms and laws” (Dunfee 2007 pp.349). This definition of CSR is particularly broad to account for the varied forms of CSR that occur in cross-country comparative studies of CSR.

What is the Harmonious Society?

In 2005, Chinese President Hu Jintao put forth the concept of “Harmonious Society” as a guiding principle for government policy-making (Xinhua 2005). In October 2006, during the 6th Plenum of the 16th Central Committee of the Communist Party of China (CCP), the CCP followed up on President Hu’s statements by publishing a resolution on the “Building of a Harmonious Socialist Society” (Xinhua 2006). This resolution gave details to the concept of harmonious society, and affirmed the concept as an official policy of the Chinese Communist Party.

President Hu Jintao on September 15, 2006, defined a harmonious society as a society “which gives full play to modern ideas like democracy, rule of the law, fairness, justice, vitality, stability, orderliness and harmonious co-existence between the humankind and nature.”⁸ This policy is understood to mean a renewed focus on addressing social and environmental challenges, with reduced priority for economic growth where it conflicts

⁸ <http://english.peopledaily.com.cn/90002/92169/92211/6274973.html> - (accessed August 12, 2007).

with these aims (Peilin 2005). Woo (2006) observes that absolute economic growth under Harmonious Society is de-emphasized in favor of greater focus on tackling income inequality between regions and within social groups. The use of the language of “harmony” is not empty rhetoric; it is important in signifying a shift in policy. Delury (2008) notes that the CCP “pays more attention to linguistic nuance than the average political organization...And because of the care with which the CCP scripts itself, changes in terminology signify shifts in power or policy with greater predictability than is the case in more anarchic linguistic environments...”

The 6th Plenum sets a deadline for a harmonious society to be achieved at 2020, and list the following disharmonious elements:⁹

Table 1.0: Disharmonious elements in China (relevant to corporations)
<ul style="list-style-type: none"> ▪ widening of gap between urban and rural development and development between different regions is gradually reversed; ▪ a reasonable and orderly income distribution pattern takes shape in general; ▪ wealth of households increase universally and people lead more affluent lives; ▪ employment rate is relatively high and a social security system covering both urban and rural residents is established in general; ▪ the ideological and moral qualities, scientific and cultural qualities and health qualities of the whole nation are improved markedly and further progress is made in

⁹ Appendix 1 provides a full listing of objectives and disharmonious elements identified in Harmonious Society.

<p>fostering a sound moral atmosphere and harmonious interpersonal relationship;</p> <ul style="list-style-type: none"> ▪ efficiency of utilization of resources is enhanced markedly and ▪ visible improvement in ecological environment is achieved
<p>Source: http://www.newsgd.com/news/china1/200610120003.htm - (accessed May 12, 2007).</p>

It also discusses some possible reforms and actions to tackle these elements:

<p>Table 2.0: Selected Proposed Actions (relevant to corporations)</p> <ul style="list-style-type: none"> ▪ Social equity and justice is a basic condition of social harmony, while a sound system provides the fundamental guarantee to social equity and justice. ▪ We must accelerate construction of the <i>system</i> that plays an important role in ensuring social equity and justice to guarantee people's rights and interests in political, economic, cultural and social fields and guide our citizens to exercise their rights and fulfill their obligations according to law. (emphasis mine) ▪ Institutional construction should be enhanced and social equality and justice should be safeguarded. ▪ Development of cultural cause and cultural industries should be speed up; ▪ Environmental protection and pollution control should be strengthened
<p>Source: http://www.newsgd.com/news/china1/200610120003.htm - (accessed May 12, 2007).</p>

These principles are expected to guide policy-making and practice by government organs which in turn should shape the behavior of other institutions in society. Given its recent introduction, Harmonious Society is still evolving. As certain words under Harmonious Society such as “democracy” are defined differently from the West by the

CCP, it is important to recognize these differences, understand the purpose behind the policy, and use this understanding to examine what elements will be prioritized under Harmonious Society.

There are differing opinions on why Harmonious Society was introduced and the importance assigned to it by the Chinese Communist Party (CCP). Woo (2006) argues that Harmonious Society was introduced in recognition of the social and environmental problems that arose as a result of China's rapid economic development. He argues that the policy is a top national priority because these problems have resulted in social instability that threatens the CCP's grip on power. The CCP recognizes that it could lose political legitimacy if it fails to respond to these problems effectively. Examination of documents from the Chinese police revealed that local riots and protests increasingly are attributed to a common set of economic, social, and political forces instead of "enemy instigation" (Tanner 2004). Delury (2008) argues instead that contemporary definition of "harmony" is deeply rooted in Confucian philosophy and is associated with "prosperity, solidarity, and consensus" and also "a ruler's ability to balance his desire to be lenient with the need to be harsh toward his people."

Woo also suggests that Harmonious Society is now a guiding principle for the CCP. Given the unofficial end of a communist ideology, the CCP requires a new *raison d'être* for its existence. Woo notes that Harmonious Society is introduced as this guiding principle. From the frequent references to it by top government officials and CEOs of

state-owned enterprises (SOEs), we can reasonably assume that the principles of Harmonious Society are considered important enough for government officials and SOEs to make frequent references to it. Whether the central government can effectively enforce the policy at the provincial level remains to be seen. Given the urgency and long-term nature of the problems faced by China, the key emphases of Harmonious Society described by Woo are likely to outlast the current President.

Direct comparison between the objectives of Harmonious Society and those of CSR fails to shed light on whether the former promotes the latter because it is difficult to understand which objectives of Harmonious Society are truly meaningful objectives of the CCP. Many of the terms used in Harmonious Society are vague or different from how they are typically understood in Western countries (e.g. promoting “Democracy”). As such, it is difficult to predict which proposed reforms will be pursued.

Hence, in order to understand the implications of Harmonious Society on CSR in China, I develop a framework for studying the elements that affect the level of CSR. Understanding what drives the development of CSR allows us to understand what measures governments can take to influence the level of CSR through these elements. In doing so, we can isolate what potential measures exist that the CCP can take to raise the level of CSR in China, observe what constraints the CCP face in taking these potential measures, and identify what are the most plausible measures that will take place in China. In identifying the measures that will drive CSR formation in China, we can also

draw conclusions on the form and distribution of CSR among the Chinese business landscape.

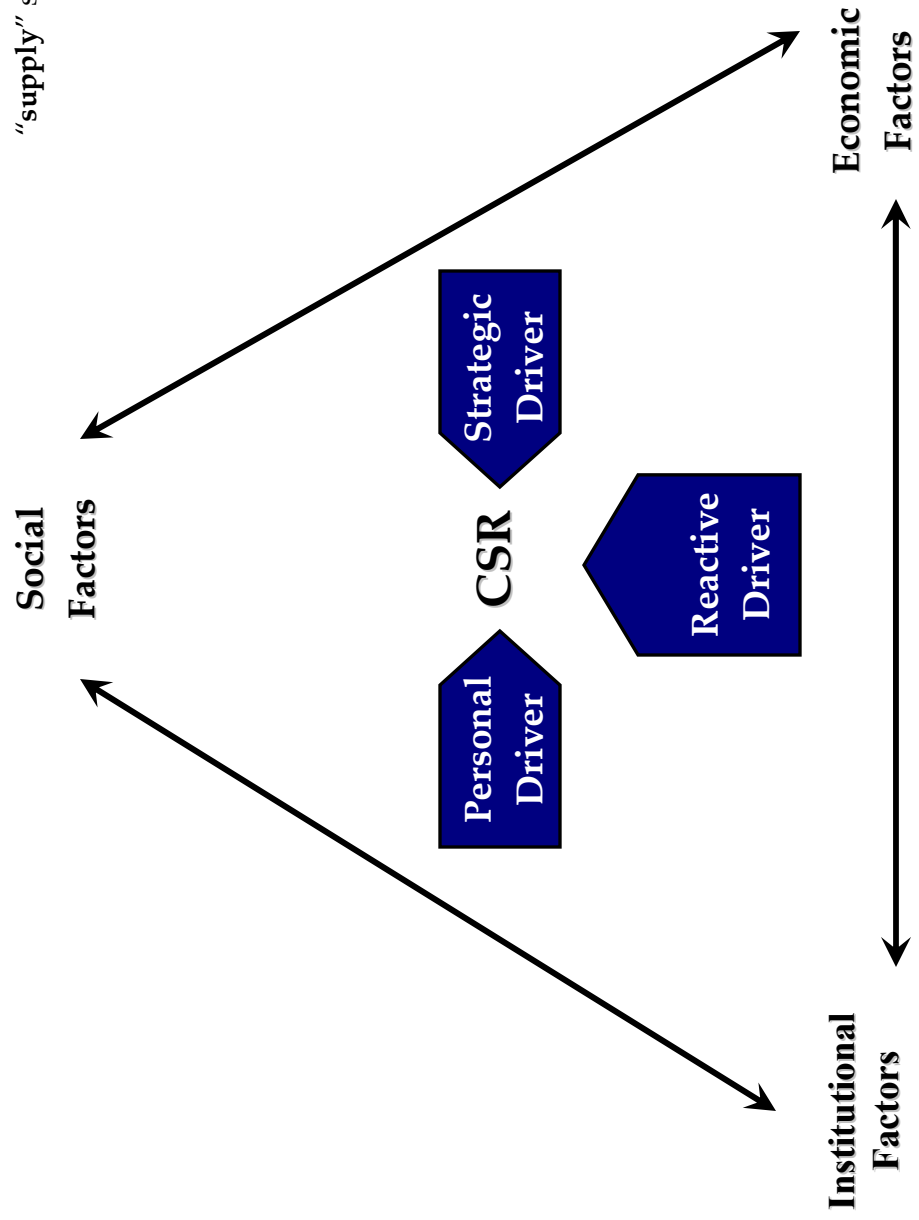
A General Framework for Supply and Demand of CSR

$$\textit{Level of CSR} = f(\textit{Demand for CSR}, \textit{Supply of CSR})$$

The conceptual framework I propose divides drivers of CSR into a “supply” and “demand” side. The “demand” side explains the social, economic, and institutional drivers of CSR. The “supply” side explains why companies facing the same public demand or pressures for CSR might respond with different levels of CSR. This views companies as having some discretionary powers in determining their responses to the same environmental pressures. . They are described in the function above to indicate that these two set of factors interact to determine the level of CSR in a country. Figure 1 describes the complete set of factors I use in my framework.

Figure 1: General Framework for Level of CSR

- Elements on the triangle are “**demand**” side of CSR
- Elements in the triangle are “**supply**” side of CSR



The Demand for CSR

The outer elements of the triangle in figure 1 represent the “demand” side of CSR. These elements have a causal and empirically-based link to the presence of CSR, although how these factors interact with each other or whether they can exist independently of other factors is unknown. There are two main arguments for how these elements influence the level of CSR: isomorphism and the potential benefits of CSR. Isomorphism holds that the adoption of similar processes or structures occurs because organizations face similar environmental constraints (Di Maggio and Powell 1983). Three forms of isomorphic pressures exist. Coercive isomorphism occurs when organizations seek to attain legitimacy from external stakeholders through adopting forms familiar to these stakeholders. Mimetic isomorphism holds that under constraints of uncertainty, organizations adopt similar responses. Under normative isomorphism, organizations behave similarly through professionalization. These isomorphic pressures result in the adoption of CSR by companies in different countries as they face similar environmental elements (Robertson 2007).

Companies engage in CSR also based on the benefits they can extract from such behavior. Under this argument, the demand factors influence a company to engage in CSR by increasing or decreasing the benefits of engaging in CSR. This is based on the idea that CSR only exists in the long-run because society rewards corporations for it (Vogel 2005). These benefits of CSR are ultimately financial in nature, but often take a

different form in the intermediate arguments drawing the link between financial returns and CSR.

The arguments for CSR's beneficial impact on financial performance can be generalized as having three forms: CSR (a) allows for discovery of new business opportunities in response to new societal trends, (b) provides "halo" effects on a company's reputation that enhances marketing and hiring by the company, and (c) limits downside risks associated with violating societal norms. The first benefit corresponds with Porter's and Kramer's (2006) argument that businesses, through engaging in strategic CSR that align their objectives with the objectives of the communities they operate in, can unlock "shared value." The second benefit corresponds with the argument that CSR strengthens a company's brand image, leading to enhanced ability to attract more talented labor, or a better reputation among customers (Burke and Logsdon 1996 pp. 498). The third benefit corresponds with the "sustainability" argument for CSR. Corporations operate with a "license from society" and in actively conforming to societal demands, corporations are less likely to face increased regulation or censure from the government or public (Porter and Kramer 2006). These benefits overlap. Table 3 shows a list of benefits associated with CSR according to over 500 executives surveyed by Grant Thornton (2007). What is important in the table is not so much the ranking, which could vary significantly from country to country, but rather, the type of benefits cited by respondents.

Table 3: Benefits of CSR according to executives

Benefit Index: 100 = Average benefit of corporate responsibility programs	Overall corporate responsibility	Social responsibility programs	Environmental responsibility programs	Economic responsibility programs
Improves public opinion	195	240	227	117
Improves customer relations	160	226	156	95
Attracts/retains talent	114	170	78	91
Attracts investors	100	66	63	172
Reduces financial risk	88	31	86	150
Encourages innovation	84	56	134	66
Provides tax credits	63	45	93	51
Improves stock price	58	28	33	113
Improves supplier relations	39	38	30	47

In practice, it is difficult to determine which mechanisms - isomorphic pressures or market-based incentives – allow the elements in figure 1 to influence the level of CSR. However, it is not necessary to determine precisely the intermediate mechanisms that link the elements of figure 1 to the existing level of CSR. Rather, it is only necessary to note that the listed elements influence the level of CSR.

$$\text{Demand for CSR} = f(\text{Social Factors}, \text{Institutional Factors}, \text{Economic Factors})$$

The extent to which these benefits or isomorphic pressures exist are in turn a function of the environment in which these corporations operate in. Environmental factors include social factors, regulatory factors, and economics factors that have a causal effect on the level of CSR activity in a country. Social factors reflect the cultural norms, attitudes, and

beliefs that shape the demand for CSR. Institutional factors include both informal and formal institutions, legislation, and enforcement mechanisms. This would include governmental institutions, corporate governance mechanisms, as well as the quality and quantity of the media and NGOs. Economic factors include macroeconomic variables influencing uptake of CSR, such as the general affluence and income distribution in society or its interaction with external companies through foreign trade.

These factors are connected in a triangle because they might have separate influence on the level of CSR but might be interdependent. For example, if society strongly believes that companies should engage in CSR (a social factor), this could induce the formation of NGOs that watches and shames the companies that fail to do so (an institutional factor). However, their direct causal relationship to CSR adoption can be considered separately.

Social Factors

At the most basic level, the willingness of consumers, investors, and the government to demand CSR stems from their belief in the value that CSR provides, or conversely the harm it brings by justifying expropriations of shareholder property, and public attitudes toward the role businesses should play in providing public goods. This affects the level of CSR that society demands. Williams and Aguilera (2006) observed that societies considered to be more socialistic are correlated with having a more favorable public opinion towards CSR while societies that hold a more libertarian perspective are

opposed to CSR adoption. The historical role that business plays in providing public goods as well as local business norms regarding philanthropy should also affect societal demand for CSR.

A favorable societal attitude towards CSR leads to increased CSR activities as companies compete for employees and consumers. Maignan (2001) identified differences in CSR levels across countries that were related to the willingness of consumers to support socially responsible businesses. For consumers who do not directly benefit from a company's CSR activities, it can be assumed that they believe CSR to be in the best interests of society if they choose to penalize companies that fail to provide CSR.

Favorable attitudes also endogenously affects factors on the demand-side and supply-side of CSR. The mindset and attitudes of business executives are shaped by the society they live in and their values are likely to overlap with that of the general public, affecting their willingness to supply CSR. Similarly, the informal and formal structures of the institutional environment are comprised by people and their willingness to demand CSR depends on the benefits they attach to it. An example of how social views affect managerial attitudes is seen in a Spicer, Dunfee, and Bailey (2004) study of responses to an ethics survey from Americans working in Russia and in the US. The study found that manager' attitudes towards addressing ethical dilemmas varied between the two groups. Waldman, Sully de Luque, Washburn and House (2006) examined the relationships between managerial attitudes towards CSR in different

countries and societal cultural constructs, institutional collectivism, and power distance. Institutional collectivism reflects the degree to which society encourages and rewards collective approaches to resource distribution and action. Power distance reflects the degree to which a culture accepts an unequal power distribution (House et al. 2004). In countries where managers value institutional collectivist traits and devalue high power distance traits, they are more likely to exhibit interest in CSR.

Institutional Factors

The existence of a variety of formal and informal institutional structures has been postulated to influence the level of CSR. How society is organized influences which stakeholder views are heard, how they are prioritized, the degree to which they can change, monitor, and enforce corporate behavior. Once certain institutional structures are in place, they create incentives for firms to meet social expectations for CSR. This differentiates institutional factors from social factors in determining the demand for CSR. Examples of formal institutions include corporate governance, legislation, and regulation. Examples of informal institutions include the organized pressures exerted by the media, self-regulating industry bodies, and NGOs. Gaps in institutional structures can also result in greater demand for CSR.

A higher level of media freedom is correlated with increased pressure for CSR activities to counter the poor publicity that arises from any media fallout (Laufer 2003).¹⁰ If corporations are able to control the media through threatening the withdrawal of advertisements, self-censorship will occur in media reports on corporations. Journalists that perceive themselves to be free from coercion from the government or corporations are also more likely to pursue a journalistic duty to bring issues of strong societal significance to the surface through investigative journalism, shedding greater light on corporate abuses (Zhou 2000).¹¹

NGOs monitor corporate behavior and advocates for change through direct action (e.g. organizing boycotts), through exposing corporate failings to the media, or through lobbying the government. A stronger NGOs increases the incentive for companies to engage in CSR to allay the concerns of NGO critics (Frankental 2001).¹² Similarly, well-organized and unrestrained labor unions are able to enforce demands for CSR in the area of employee benefits in a similar fashion. Doh and Guay (2006) adds that mechanisms through which this informal institution interacts with the government also influences the level of CSR activities. By examining NGO action in the EU and the US, they postulate that where there are greater avenues for NGOs to provide input to government policy-making, there is an increased demand for CSR.

¹⁰ Laufer argues that many firms engage in corporate social initiatives as a form of “greenwashing” to “obscure the nature of the problem or allegation, reattribute blame, ensure an entity’s reputation, and finally, seek to appear in a leadership position.”

¹¹ Zhou observes that investigative journalism in China developed as China’s authoritarian political system “thawed.”

¹² Frankental notes that NGO challenges, such as Greenpeace’s actions against Shell over Brent Spar, contributed to CSR involvement by the company.

The presence of domestic business associations that organizes self-regulation also promotes CSR (Fox and Prescott 2004 pp.6). These associations set guidelines on social and environmental practices, anchoring the expectations of how the industry should behave. Associations also help raise CSR standards by promoting industry best practices and by encouraging mimetic isomorphism of CSR practices. Moon (2004) identifies how the growth of CSR business associations occurred in the UK which helped spread CSR practices.

Common reporting standards for the social and environmental performance of companies through industry self-regulation and membership of companies in global business associations also promote CSR through similar mechanisms. Common reporting standards allow comparisons of the extra-economic performance of firms within the industry, resulting in pressures on underperforming firms to meet industry norms. Global business associations such as the UN Global Compact or World Business Council for Sustainable Development (WBCSD) serve similar functions as domestic business associations, with the added benefit of exposing firms to international best practices.¹³ The gain here is particular great for countries where companies typically have a low level of CSR activities. For example, the vice-Chairman of Chinese engineering firm CHELBI revealed to me that his firm was considering incorporating

¹³ The UN Global Compact is a framework for businesses to align their operations and strategies with 10 universally accepted principles in the areas of human rights, environment, and corruption. The WBCSD works to bring business leadership to issues of sustainable development.

social impact assessments for their engineering work, despite the absence of such practices domestically, as he was exposed to the idea through his involvement in an international engineering association.¹⁴

Corporate structures also have an impact on the forms and level of CSR. Whether a company is privately or publicly held, or whether ownership is concentrated in the hands of a few shareholders or dispersed among many, affects perceptions of the legitimacy of CSR engagement by the company and the form of CSR the company engages in (Robertson 2007). Dispersion of corporate ownership is found to be positively correlated with investor protections. Well-protected shareholder rights enhance the likelihood that companies view CSR as being beneficial to profitability. Conversely, a company with ownership concentrated in the hands of one owner is more likely to engage in CSR that reflects the personal references of the owners of the firm (i.e. “supply” factors play a bigger role in determining CSR formation).¹⁵

A strong foundation of corporate governance also increases the institutional demand for CSR.¹⁶ Corporate governance is the “set of relationships between a company’s management, its board, its shareholders and other stakeholders” (OECD 1999 pp.2). Corporate governance strengthens disclosure standards and forces the company to communicate more frequently with its various stakeholders. Both of these activities

¹⁴ Interview with Xie Shaoguang, Vice-Chairman of Chelbi in May 22, 2007 in Beijing, China.

¹⁵ Robertson 2007 pp. 15-16.

¹⁶ Ararat and Ugur (2003).

increase the uptake of CSR by the company. Allowing shareholders to issue shareholder resolutions on social or environmental issues for corporate consideration also pressures firms to engage in CSR (Proffitt and Spcier 2006).

Certain legislative actions also provide institutional demand for CSR. One of the ways it does so is by reducing information imperfection and information asymmetry that prevent CSR from becoming an effective signal to consumers. Another way it encourages CSR is through support to normative and coercive isomorphism. A study of CSR formation in the United Kingdom found that laws promoting awareness of industry best practices or awareness of the performance of CSR initiatives raised the level of CSR in the United Kingdom (William, Aguilera, Conley, and Rupp 2006 pp. 7). Mandatory disclosure laws on social and environmental performance also encourage firms to engage in CSR by ameliorating the imperfect information problem. Cuesta et al. (2004) finds that laws in Europe address gaps in social and environmental information disclosures to allow consumers to use their purchasing power to reward CSR, but they also note that such market incentives are too weak in Spain to make a meaningful difference. Hence, such information measures depend on the social factor for their effectiveness.

Laws requiring occupational pension funds to disclose how social and environmental information of a company are processed in the construction of investment portfolios in the UK, Belgium, France, Netherlands, and Germany has also fueled interest in CSR in

the investment community and indirectly in companies (William and Aguilera 2006), although this finding is disputed. Other laws that encourage companies to engage in CSR include preferential tax treatment for philanthropy or subsidies for certain CSR-related activities, which helps lower the costs of engaging in CSR. Following this argument, Aguilera et al notes that the higher levels of CSR in the UK vis-à-vis the US partly results from the higher composition of pension funds and insurance companies versus mutual funds in the institutional investor pools of both countries. Pension funds and insurance companies have longer time horizons for their investments and dedicate greater attention to social and environmental impact of firms.

The institutional demand for CSR can also arise not out of specific institutions, but from the institutional *gaps* that exist. Perceived deficiencies in government provision of desirable public goods encourage companies to step in to fill this gap (Roche 2000). CSR levels are further increased when the government provides opportunities for companies to establish private-public partnerships to fill these gaps (Moon 2004 pp.2).

Economic Factors

It is suggested that a correlation between CSR and the stage of economic development (as measured by GDP per capita) exists. This observation stems from how CSR engagement is much more extensive in wealthier Western countries as compared to elsewhere. However, a comparative study by Chapple and Moon (2004 pp. 432 – 434) of

seven Asian countries fails to observe any correlation between GDP per capita and CSR levels. This finding is inconclusive given the small sample size, but goes to show how there is little empirical basis supporting or rejecting a link between CSR and GDP per capita.

International economic interaction appears to increase the demand for CSR. The same authors observed that increased levels of international sales or foreign ownership of the firm is correlated with more extensive CSR reporting. Robertson (2007 pp. 9) observed that economic interactions influence the domestic level of CSR through mimetic isomorphism. Fukukawa and Moon (2003) also suggested that FDI inflows are responsible for the rise of CSR in Japan.

Economic interaction also leads to higher levels of CSR because of the increased presence of multinational firms in the country. Multinational firms that diversify internationally have higher levels of CSR (Strike et al. 2006). The presence of these firms (indicated by FDI levels) domestically leads to adoption of their CSR practices locally through isomorphic pressures. International sales to foreign companies also influence the adoption of CSR as foreign buyers exert pressure on their suppliers to raise their working conditions and product safety to ameliorate pressures from activist groups or to meet higher home country standards. For example, pressure on apparel producers such as Nike, Reebok, and Gap resulted in improvements to the working conditions in

the textile factories of their suppliers.¹⁷ Some of these changes can be considered as CSR in those countries.

The Supply Side of CSR

$$\text{Supply of CSR} = f(\text{strategic driver, personal driver, reactive driver})$$

The “supply” side of CSR looks at how companies – especially key decision-makers such as the CEO – make decisions to supply CSR. While the level of CSR might share a relatively deterministic relationship with the demand side factors at the macro-level, that is when a large number of firms are under examination, it fails at the micro-level in explaining how two similar companies facing the same set of demand factors can have vastly different levels of CSR. For example, Shell and Exxon Mobil both operate in relatively similar international environments and sell to the same markets. However, Shell is seen as having a relatively high level of CSR engagement while Exxon Mobil’s CSR efforts are at best considered reluctant or non-existent.¹⁸ Such differences motivate the division of determinants of the level of CSR into supply and demand side groupings to account for discretionary behavior by the company.

¹⁷ In 2006, Nike terminated its contract with soccer ball manufacturer Saga over deteriorating working conditions. <http://www.csrwire.com/PressRelease.php?id=6884> (accessed April 11, 2008).

¹⁸ For an example, see http://www.mallenbaker.net/csr/CSRfiles/page.php?Story_ID=2080 (accessed April 12, 2008).

Separating the decision to supply from the demand for CSR makes the assumption that companies are to some degree free to react to their environment. Each company facing the same set off institutional, social, and economic factors can choose within a defined range the level of CSR they wish to engage in. At the same time, demand and supply factors interact and are endogenous: positive social attitudes towards CSR influence the level of benefits associated with CSR. However, insofar as top management of these companies is part of society, they share society's expectations of CSR engagement. Supply drivers do not exist independently from demand factors.

Personal Driver

Personal drivers include the attitude, interests, and belief of top management towards the use of company resources for social causes. The personal beliefs and interests of top managers have been frequently noted to determine a firm's investment in CSR.¹⁹ Pet interests of the top managers, or of relatives, or of the family of the top managers have been occasionally observed as being a driver for certain corporate social initiatives that were undertaken.²⁰ The attitude of the top managers towards the efficacy or legitimacy of CSR also acts as a lens through which the top managers view the benefits and necessity of CSR. A top manager's attitude towards CSR could make him or her consider CSR irrelevant despite strong societal demand for CSR or it could lead him to undertake

¹⁹ I used CEO here as a generic representation of any set of key decision makers in a company.

²⁰ Michael E. Porter argues that CSR remains "too unfocused, too shotgun, too many supporting someone's pet project with no real connection to the business" in the Economist Jan 17, 2008 special on CSR.

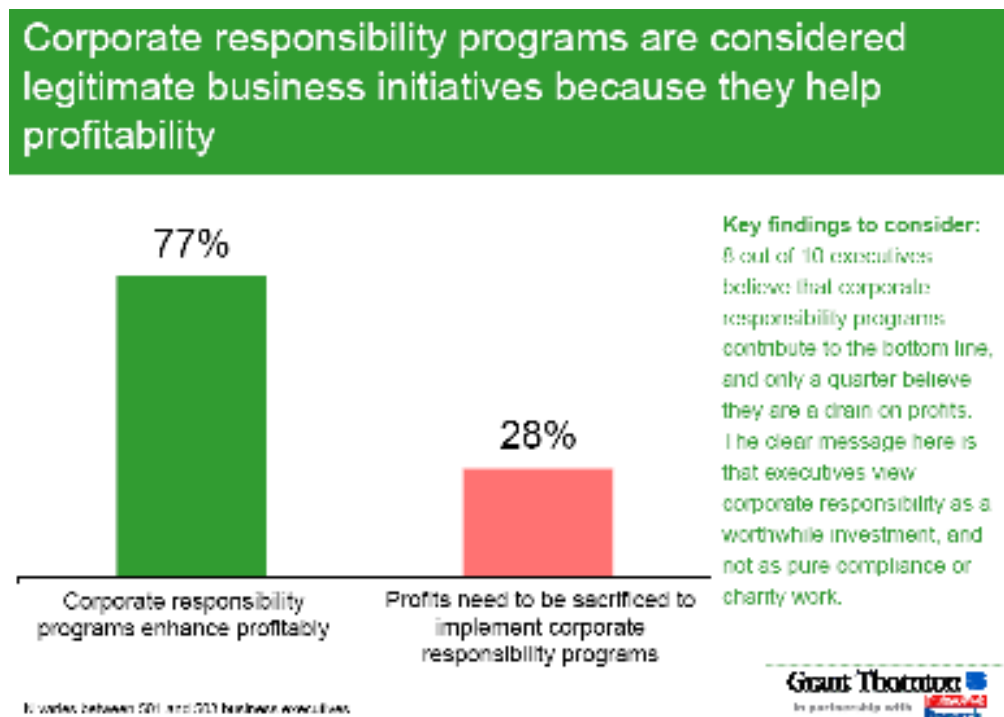
investment in a level of CSR considered atypical for his industry. On a larger scale, the organization's culture and values also influence the likelihood of CSR engagement (O'reilly and Chatman 1996). For example, Nike's CEO Philip Knight resisted responding to activist pressure for Nike to address the charges of sweatshop working conditions, use of child labor, and low wages in factories producing Nike apparel for 4 years after social activist Jeff Ballinger reported on Nike's factory conditions in Harper's magazine, Knight believed that these issues were not the responsibility of the company and did not respond to criticism (Burns 2000). On the other hand, Merck committed to providing Mectizan to treat river blindness in Africa without public pressure for such an action.

Strategic Driver

Strategic drivers include a company's assessment of its opportunities to create "shared value" with society through strategic CSR. Porter and Kramer (2006) define the principle of "shared value" as choices that benefit both society and corporations that arise out of the "mutual dependence of corporations and society." Firms are highly heterogeneous and different firms could extract different values from their CSR activities based on their existing configurations. Under imperfect information and facing human biasness, top managers could also perceive the benefits of CSR very differently. Whether a firm engages in CSR depends on whether it perceives an opportunity to benefit from

engaging in such activities. The Grant Thornton survey (see figure 2) shows that there is by no means homogeneity in managerial attitudes towards CSR.

Figure 2: Managerial attitudes to CSR



Reactive Driver

Reactive drivers include the adoption of CSR activities by companies under public pressure to head off criticism. Since 1992, Nike faced criticism of poor working conditions and the use of child labor in its suppliers' factories. NGOs, the media, and activists pressured Nike by supporting a boycott of Nike products (Burns 2000). Since then, Nike has been actively involved in various CSR initiatives. Such initiatives could have been undertaken as a *reaction* to public outcry. In this scenario, the top managers

need not believe in the importance or legitimacy of CSR and is not seeking out opportunities to create “shared value.” Instead, engaging in CSR activities is used as a reaction to deflect or reduce public pressures.

Harmonious Society and CSR

This supply and demand framework of CSR explains how CSR is generated. Using this framework helps us understand what drivers and factors, if changed, will increase the level of CSR in a country.

To judge the claim that Harmonious Society will lead to higher levels of CSR in China, my paper looks at the different institutional factors that can be changed by government policy to draw up a hypothetical list of legislation or actions that would raise the level of CSR. By examining the feasibility of these actions in the context of China’s social and political situation, we can understand whether Harmonious Society will lead to adoption of CSR in China. This comparison only examines whether a causal relationship exists between CSR and Harmonious Society as claimed by practitioners, and does not make the claim that Harmonious Society’s *intention* is to promote CSR.

Using this list to judge how Harmonious Society affects CSR in China allows us to overcome the problems involved with directly comparing the aims of Harmonious Society and those of CSR. As Harmonious Society is a recent phenomenon and different

objectives under Harmonious Society might be assigned vastly different priorities. Determining which objectives are actually top priorities of the Chinese government is difficult *ex ante*. Hence, only in observing actions that corresponds with our list can we conclude whether the government policy can raise the level of CSR.

Influencing Demand Factors

Policy-making provides the government with tools that mainly influence the institutional factor. While the extensive promotion of the principles of Harmonious Society by the government could affect societal perceptions of the role of business in China, it is difficult to ascertain how effective such promotion is in changing perceptions. Effective shaping of public opinions towards business could affect the level of CSR demanded by society, although such a perceptual shift is difficult to observe and could develop slowly.

Given the high level of FDI into China and the high level of international trade, this is a likely influence of the level of CSR in China. However, there is unlikely to be a major change in the *rate* of FDI inflow into China over the near future, and hence economic factors are unlikely to be a major source for an *increase* in CSR in China. In the near-term, CSR from FDI is likely to develop among the subsidiaries of MNC first, before spreading to a wider business community through isomorphic pressures.

Table 4 summarizes the current status on various institutional factors and what changes would lead to an increase in the level of CSR. However, many of these factors are difficult to change because they are bounded by external political concerns in China, and this leads us to conclude that changes in the level of CSR will occur mainly through the less easily observable influence of the government on supply drivers.

Table 4: Institutional Factors in China

Institutional Factor	Current Situation	What Can Be Done
Media freedom	<ul style="list-style-type: none"> ▪ The media is largely state-owned and highly regulated ▪ Extensive media monitoring and widespread censorship (especially of criticisms of the government) by the state results in China being ranked #163 for press freedoms by Reporters Without Borders 	<ul style="list-style-type: none"> ▪ Repeal or loosen current laws that restrict reporting on companies and state-owned enterprises
NGOs	<ul style="list-style-type: none"> ▪ Registration of non-governmental organizations (NGOs) require a government sponsor ▪ NGOs are distrusted by the central government, which fear NGOs organizing politically, and by provincial governments, which fear NGOs reporting on malfeasance by provincial officials 	<ul style="list-style-type: none"> ▪ Allow easier registration of NGOs ▪ Encourage NGO input into policy-making ▪ Provide NGO access to media
Social & Environmental Impact Reporting	<ul style="list-style-type: none"> ▪ New Environmental Impact Assessment (EIA) Law introduced in 2003, but suffers from narrow definition of pollution and lack of public participation ▪ Social Impact Assessment is not required by any laws in China at the moment 	<ul style="list-style-type: none"> ▪ Mandatory disclosure of EIA findings ▪ Allow public input into process ▪ Introduce Social Impact Assessment Law
Domestic Business	<ul style="list-style-type: none"> ▪ China Business Council for Sustainable Development (the 	<ul style="list-style-type: none"> ▪ Provide government support and encourage

Associations	<p>local arm of the World Business Council for Sustainable Development) exists, but a majority of members are subsidiaries of western multinational corporations</p> <p>A large number of domestic business associations exist but until recently, do not appear to engage in significant self-regulation although this appears to have changed since 2006</p>	<p>associations that emphasize self-regulation, CSR engagement, and sharing of CSR best practices as key items in agenda</p>
Global Business Associations	<ul style="list-style-type: none"> ▪ 168 businesses and business associations in China are listed under Global Compact ▪ Some Chinese companies belong to industry-specific associations 	<ul style="list-style-type: none"> ▪ Government sponsorship and encouragement of membership in related associations
Corporate structures	<ul style="list-style-type: none"> ▪ Ownership of listed companies is heavily concentrated in the hands of the government 	<ul style="list-style-type: none"> ▪ <i>Government ownership results in significant influence on “supply-side” of CSR</i>
Corporate governance	<ul style="list-style-type: none"> ▪ Control-based model of governance that favors the controlling shareholder at expense of minority interests 	<ul style="list-style-type: none"> ▪ <i>Government ownership results in significant influence on “supply-side” of CSR</i>
Disclosure of social and environmental consideration by pension funds	<ul style="list-style-type: none"> ▪ Limited impact because of small role equity plays in financing of most firms ▪ Lack of environmental and social considerations by funds with only one SRI-related fund introduced in 2006 by the Bank of China 	
Tax treatment of philanthropy	<ul style="list-style-type: none"> ▪ Only 2 percent (as of 2007) of taxes on salary can be offset by individual philanthropy although there are plans to raise the amount to 12 percent in 2008 ▪ Donations up to 10 percent of annual profits for corporations are tax-deductible ▪ Only donations to 20 state-approved charities are eligible for 	<ul style="list-style-type: none"> ▪ Increase tax-deductible donation amounts for corporations ▪ Increase number of charities eligible under tax-deduction scheme

	<p>tax rebate</p> <ul style="list-style-type: none"> ▪ Individual entrepreneurs might seek to donate through their companies in light of such unfavorable laws 	
Institutional gaps in provision of public goods	<ul style="list-style-type: none"> ▪ Well-documented decrease in public services such as healthcare especially in rural areas, took place as funding was decentralized ▪ Significant numbers of urban migrants cannot access state-provided healthcare and education benefits because of their “hukou” status 	<ul style="list-style-type: none"> ▪ Continued decline of public services would increase demand for CSR (not a government action)

Media Freedom

Table 5 shows that China has been ranked by Reporters without Borders, a NGO that monitors press freedom, as one of the worst national violators of press freedom annually for the past 4 years. Reporters without Borders allege that China routinely arrests journalists and editors at newspapers that comment on topics considered taboo by the government.²¹ China also provides journalists with guidelines on which topics cannot be reported on, which topics should only use materials from the state-run Xinhua agency, and which topics should not be commented on. In addition, journalists in state-run news broadcaster CCTV receive daily updates from the government on topics that need to be handled with caution or which should not be reported on. In addition to frequent arrests, “citizen journalists” who report through informal online media channels, such as blogs,

²¹ http://www.rsf.org/article.php3?id_article=25650 – (accessed March 22, 2008)

have been arrested for criticisms of the government. The Chinese “Golden Shield Project” (金盾工程) also uses an algorithm to block out websites that the government deems politically sensitive. China’s ranking has not improved in recent years, despite hopes that the Olympics would lead to a loosening of press censorship.

Table 4: Ranking of Press Freedom				
	2004	2005	2006	2007
Reporters without Borders	162	159	163	163
Sources: http://www.rsf.org/article.php3?id_article=24025 – (accessed April 11, 2008)				

Some of this censorship affects the ability of reporters to report on companies’ negative impact on communities - state-owned entities (SOEs) in particular. Companies that collude with provincial officials in ways detrimental to public welfare are protected from the lack of media coverage. For example, the media played a decisive role in revealing the case of widespread slavery practiced in Shanxi brick kilns with the collusion of provincial officials.²² Changes that would encourage CSR would include increased media freedom especially in the area of SOEs and corruption. This would include the repeal or loosening of laws that currently threatens reporters that report on corruption or environmental damage.

²² http://www.chinadaily.com.cn/china/2007-06/19/content_897234.htm - (accessed July 22, 2007).

NGOs

Regulations were imposed to govern the formation of NGOs in the late 1980s. Some of these laws were instituted in 1989 after the Tiananmen incident and include the Regulations on the Registration and Management of Social Organizations, the Regulations on the Registration and Management of Foundations, and the Interim Provisions for the Administration of Foreign Chambers of Commerce in China (Ye 2003). These regulations still limit NGO operations by imposing government control on their activities. NGOs have to be registered with a sponsor that was a government line agency. The sponsor supervises the NGO's day-to-day activities and reviews the work of affiliated NGOs. In recent years, some NGOs have formed domestically by evading such constraints through registering as commercial enterprises, or by "claiming to be an offshoot of a government agency or commercial enterprise" (Ye 2003). In addition, NGOs operating in China are increasingly registered overseas as well as in Hong Kong, in order to overcome such problems.²³

While regulations have not prevented NGOs from taking root in China, it leaves them in a precarious situation that limits the activities they can engage in. Because of their uncertain legal status and their lack of media access, NGOs cannot play an advocacy role. They run the risk of being shut down if they attract too much attention, and this

²³ Interview with Ze Tao, head of Non-profit consulting firm in China NPP, on July 26, 2007).

prevents them from raising issues that need to be addressed. Furthermore, since these NGOs are not recognized, they also cannot be consulted by the government on policy-making.

NGOs cannot act as effective checks and balances under such a situation. Hence, the first step has to involve changes to existing laws to allow easier formation and recognition of NGOs. This would allow NGOs to register without requiring a government sponsor. This can be followed up by giving NGOs access to the state-run media and soliciting their input on policy-making.

Social and Environmental Impact Reporting

China has a long experience with environmental impact assessment (EIA). In the 1970s, China introduced a national policy on environmental protection. In 1989, it passed the Environmental Protection Law that controls various sources of pollutions. In 2003, it passed a new law that requires city governments, State Council departments, and relevant departments to conduct an EIA for plans or programs concerning agriculture, stockbreeding, forestry, energy, water management, transport, civil construction, tourism and development of natural resources. The major change this law entails is the superimposition of environmental assessment for government plans and programs on existing project-level EIA requirements. This suggests that the government considers existing EIA requirements for individual projects effective (Wang 2003).

However, such laws are limited in inducing corporate compliance. The State Environmental Protection Administration (SEPA) in China is considered a second-rank ministry and all levels are known to suffer from shortages of staff and financial resources (Wang 2003). Furthermore, this is a system operated by government officials for their own benefits, which leads to misalignment of incentives. The lack of NGO or local input into an opaque process also leads to biased assessment and poor decision-making (Wang 2003).

The key changes that would influence CSR levels include mandating public disclosure of EIA filed for private-sector projects. This should be coupled with a transparent process that allows public input into the assessment in order to correct for biased assessments. The EIA process required by law is already standardized and as such, findings should be disclosed in a similarly standardized fashion. As there are currently no parallel to the EIA for assessing the social impact of economic activities, Social Impact Assessment if mandated and disclosed will also increase the level of CSR in China. Such measures would make companies more sensitive to community pressures by reducing the level of asymmetric information.

Domestic Business Associations

Until recently, Chinese business associations were never actively involved in self-regulation or in calls for CSR. Instead, Pearson (1994) argues that rather than representing autonomous self-interest groups, Chinese business associations post-market reforms in the 1970s served as bridges between government and society. Many of these groups were established by the government to aid in economic reforms and to support government measures. Such groups also fall under the same laws that curtail NGO formation, and were adversely affected by the measures taken to restrict their activities after the Tiananmen incident.

However, there are promising signs that domestic business associations are increasingly in self-regulation and best practices in CSR. Because of the inter-relationships between Chinese business associations and the government, policy aims of Harmonious Society are likely to influence heavily the activities conducted by these associations. The World Bank Private Sector Development Blog reported in 2006 that national CSR organizations were appearing with government support. This included the Chinese Enterprise Social Responsibility Research Institute. The same article reported calls by the chairman of the Greater Pearl River Delta Business Council for Hong Kong-owned factories to implement socially responsible manufacturing and sourcing to curb air pollution in the Pearl River Delta.

Concrete steps that would signal an increase in the level of CSR would depend on whether both government and private business associations include self-regulation and

CSR engagement as part of their core agenda. Measures that indicate sharing of best practices in CSR would also contribute to overcoming imperfect information. One possible measure to look at could be the number of local business associations that sign up with the Global Compact and which provides progress reports on their activities that pursue the aims of the Global Compact.

Global Business Associations

The number of Chinese signatories to the Global Compact is relatively insignificant. A search on the Global Compact website shows that 166 Chinese companies, NGOs, and business associations have signed up to the Global Compact as of April 2008. This compares to 468 for Spain alone.²⁴ Of these 166 companies, 13 are listed as “non-communicating,” indicating the prospect of removal from the Global Compact if another progress update deadline is missed. However, this figure fails to capture the various industry-specific global associations to which Chinese firms belong to and might underestimate the true degree of international isomorphic adaptations. Government sponsorship or incentives for companies, especially state-owned firms, to become engaged in such global organizations will induce a greater level of CSR.

Corporate Structure

²⁴ <http://www.unglobalcompact.org/ParticipantsAndStakeholders> - (accessed April 11, 2008).

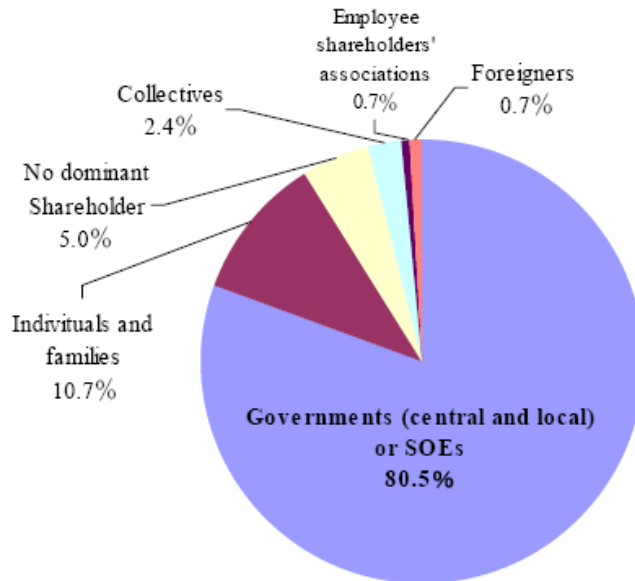
Figure 3a shows that publicly listed companies in China are predominantly government owned as of 2001, although this is likely to have decreased significantly since. SOEs still play a large role in China's corporate landscape, whether measured by their employment levels or industrial output (see figure 3b) Comparative CSR literature has examined the relationship between dispersed and concentrated holdings on the quantity and form of CSR that companies undertake. However, the relationship between concentrated state ownership and levels of CSR is largely absent in the literature.

Given government ownership of these companies, there is a strong overlap between public and private interests for SOEs. High levels of government ownership create incentives for CEOs to achieve non-financial objectives related to government policy. Bai and Xu (2005) find empirical evidence from CEO contracts that the government sets non-financial objectives for SOEs. Because of this overlap, the supply-side of CSR is heavily influenced by the need for top management to align their action with government objectives, and this will be addressed in greater detail in the next section.

Figure 3a: Composition of listed companies by nature of dominant shareholder

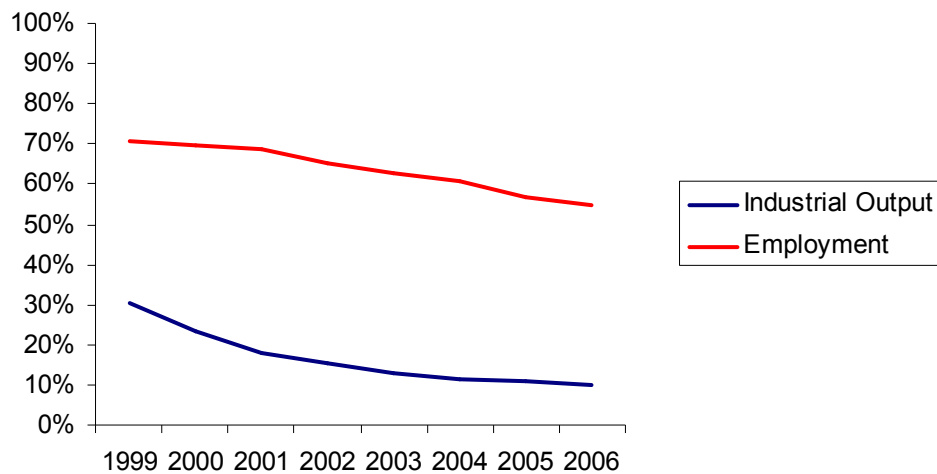
SCEs (Figure 3).

Figure 2 Composition of listed companies by the nature of dominant shareholder



Note: 1) 1,050 listed companies as of 2001. 2) Companies of which no single shareholder's share exceeds ten per cent are classified as "No dominant shareholder".
Source: Compiled from Zhang et al. [2002].

Figure 3b: SOE output/employment as percentage of total



Source: Compiled from CEIC Database

Corporate Governance

Liu (2006) argues that China's corporate governance model resembles a control-based rather than a market-oriented model. Under this model, controlling shareholders – the state in China's case – “employ all feasible governance mechanisms to tightly control the listed firms.” The defining characteristics of such a system include “concentrated ownership structures, management-friendly boards, inadequate financial disclosure and inactive take-over markets...” Such a model is detrimental to minority shareholders, as it allows controlling shareholders to engage in appropriation of the assets of minority owners. As we noted in the figure 1, well-protected minority shareholders are associated with higher levels of CSR engagement.

Two key corporate governance mechanisms exist to address this conflict between controlling and minority shareholders and between owners and managers: Internal mechanisms such as the “board of directors, ownership structure, executive compensation and financial disclosure” provide checks and balances while external mechanisms such as an “effective takeover market, legal infrastructure, and product market competition” (Liu 2006) ensures that corporate resources are allocated to their most efficient use. Currently, shareholder resolutions from minority shareholder are often unsuccessful because of the presence of controlling shareholders (Yang 2007). This stymies the possibility of a US-style social shareholder resolutions approach to encouraging companies to participate in CSR.

Liu (2006) identifies the main problem with corporate governance in China as similar to the problem of corporate ownership structure. A high level of shares in many SOEs is non-tradable leading to inefficient takeover markets. However, changing this will not necessarily increase the level of CSR as the controlling shareholder, in this case the government, is likely to be more favorable to non-profit oriented CSR activities that reflect its social or political goals.

SRI and Pension Funds Disclosure

As Chinese firms are largely financed by debt rather than equity, requiring pension funds to disclose their social and environmental considerations in investment decisions is unlikely to have a major impact on companies' participation in CSR in China. For public firms in China, leverage ratios are at 60 percent which is significantly higher than an average leverage ratio of 27 percent for developing countries and 49 percent in Ireland (Li, Yue, and Zhao 2006 pp. 11).

Changes in pension fund disclosure, unlike in the United Kingdom, is unlikely to significantly affect the levels of CSR in the short term for these reasons. However, it is worth noting that the first domestic socially responsible investment fund was launched by the Bank of China in 2006 (Jarvis 2006). The Sustainable Growth Equity Fund assesses growth potential and sustainability of companies' business models. Increased numbers

of such funds could capture a trend of greater interest in CSR in China. However, given the limited number of such funds, they are unlikely to catalyze higher levels of CSR engagement in China.

Tax Treatment of Philanthropy

Existing legislation in China discourages individual philanthropy. Only 2 percent of taxes on salary can be offset by donations. Furthermore, only 20 charities are approved by the state for tax offsets. New legislation in 2008 is being proposed that will increase the percent of taxes that can be offset to 12 percent.²⁵ In comparison, current US tax laws allow full tax deductions for charitable donations up to 50 percent of salary. Because of this, Chinese entrepreneurs interested in philanthropy might be more receptive to engaging in CSR through their companies in lieu of private donations because such activities would be itemized as costs, which would reduce taxable income.

Since 2007, companies' donations up to 10 percent of a company's profits are tax deductible.²⁶ Changing this rate could reduce the costs of corporate philanthropy and encourage companies to give more. Furthermore, broadening the pool of charities that qualify under this scheme would encourage companies to give more.

²⁵ <http://www.reuters.com/article/ousiv/idUSHKG37217120071205> - (accessed March 11, 2008)

²⁶ The draft also stipulates that a company's public donation expenditures are deductible if they do not exceed 10 percent of its annual profits.

Institutional Gaps in Provision of Public Goods

Decrease in spending on public services in China, particularly for healthcare, has resulted in significant impoverishment. The World Health Organization estimates that between 1991 and 2000, the percentage of GDP spent on health grew from 4.11 percent to 4.82 percent (Liu 2004). However, public spending as a percentage of these total costs decreased from 22 percent to 14 percent. At the same time, per visit costs rose 268 percent in urban areas and 175 percent in rural areas. Because of ballooning costs, bed occupancy rates at township health centers and country hospitals fell from 46.0 percent to 33.1 percent for the former and 82.7 percent to 60.8 percent for the latter between 1991 and 2000. Liu estimates that increased private medical expenditure raised the number of rural households living under poverty by 44.3 percent.

Not only has healthcare access decreased dramatically, there also exists a pool of urban migrants in China that cannot access public healthcare and education systems at all. Under the *hukou* system, citizens are only able to access public services in their registered village or city of residence. Migrants that move into cities to seek employment cannot access public healthcare and education. Changing their official residence, or *hukou*, is difficult for most urban migrants. Liu (2003) observes that people who obtained urban *hukou* later in their life are likely to have fewer employer-provided healthcare benefits, have fewer years of education, and are more likely to be self-employed or unemployed.

We observe significant gaps in the provision for key public services. These gaps provide a significant space that can be partially filled by CSR. If public services continue to deteriorate, demand for CSR is likely to increase.

Supply Factors

Table 4 lists a wide range of variables that will affect the level of CSR in China. However, looking at the variety of measures that would lead to an increase in CSR, we find that many of them are bounded by other political or economic concerns that might make them hard to realize. Because of the constraints surrounding institutional factors, the most likely influence the government can exert on shaping the level of CSR would be through increasing the discretionary supply of CSR by top management. Concentrated ownership of public firms in state hands is likely to provide significant leverage for governments to influence top management's views on all three supply elements. However, the role of state ownership is not something traditionally emphasized in comparative CSR literature.

The Chinese government has clear incentives to encourage firms to pursue CSR. As the government pursues social and political objectives, these objectives are likely to influence the pressure they exert on executives at firms they own. Bai and Xu (2005) find evidence that non-financial objectives are written into CEO contracts for state-owned

enterprises. Actions taken at these firms to conform to these non-financial objectives would fall under the definition of CSR used here. For example, maintaining high employment might be a political objective that SOEs might be made to adopt and which would fall under CSR. Mako (2006) wrote in a World Bank report that Northeast SOEs in China maintain excessively large workforces and are heavily burdened by their provision of social services. According to Mako, in 2002, Northeast SOEs had far higher numbers of workers per unit of output compared to international peers and ran 7183 childcare centers, schools, hospitals...etc.

Because the role of the state will be prominent in developing CSR in China, this will affect the specific distribution and form which CSR will take in China. Institutional factors that drive widespread adoption of CSR are unlikely to occur. Thus, CSR is likely to develop first among SOEs and CSR initiatives will be heavily concentrated in this sector. Early in 2008, the State-owned Assets Supervision and Administration Commission (SASAC) issued CSR guidelines requiring all SOEs to understand the importance of CSR (see Appendix 2). The guideline places CSR within the context of “scientific development” put forth in Harmonious Society, and encourages SOES to use this consideration of CSR in their reform processes. This trend is already being observed. China Mobile became the first Chinese firm to issue a complete CSR report in 2007.²⁷ Of the big four banks of China, Industrial and Commercial Bank of China and China

²⁷ <http://www.chinacsr.com/2008/02/26/2125-china-mobile-to-publish-2007-csr-report/> (accessed January 13, 2008).

Construction Bank both published CSR reports in 2007. Bank of China has not published a CSR report but it has instead launched its first SRI investment fund this year.

Given that the mechanism for CSR development in China will occur through discretionary supply elements, and that it will largely take place among SOEs, the form of CSR that occurs will reflect government political priorities. This form of CSR is likely to be strategic – firms respond to incentives or directives from the government to initiate CSR activities. It will not be driven by personal or reactive drivers.

While institutional factors can play a role in developing CSR in China, it is likely that the strongest and most visible effect of government policy on raising the level of CSR will be through supply-side factors. This implies that CSR in China in the near future will be largely concentrated in SOE and is unlikely to be widespread in the growing private-sector of China.

Appendix 1

Problems and Desired Outcomes

- widening of gap between urban and rural development and development between different regions is gradually reversed;
- a reasonable and orderly income distribution pattern takes shape in general;
- wealth of households increase universally and people lead more affluent lives;
- employment rate is relatively high and a social security system covering both urban and rural residents is established in general;
- basic public service system is further improved and the government attains relatively big improvements in administrative and service levels;
- the ideological and moral qualities, scientific and cultural qualities and health qualities of the whole nation are improved markedly and further progress is made in fostering a sound moral atmosphere and harmonious interpersonal relationship;
- creativity of the whole society is enhanced markedly
- innovation-based country is established in general;
- public administration system is further improved and
- social order is in good condition;
- efficiency of utilization of resources is enhanced markedly and
- visible improvement in ecological environment is achieved;
- the objective of building a moderately prosperous society of a higher level and in an all-around way to benefit the Chinese people of more than 1 billion is realized and
- striving to attain a situation in which all people do their best according to their abilities, everyone is provided for and people live together in harmony.

Actions

- We must adhere to solving problems on the road ahead through promoting development and make great efforts to develop social productive forces and constantly consolidate the material base for social harmony.
- Meanwhile, we must put more attention to developing social services and push forward economic and social development in a coordinated way.
- Social equity and justice is a basic condition of social harmony, while a sound system provides the fundamental guarantee to social equity and justice.
- We must accelerate construction of the system that plays an important role in ensuring social equity and justice to guarantee people's rights and interests in political, economic, cultural and social fields and guide our citizens to exercise their

rights and fulfill their obligations according to law.

- Nurturing a culture of harmony is an important task of building a harmonious socialist society, while socialist core value system is the essential element of the culture of harmony.
- We must adhere to the guiding role of Marxism in ideological fields, firmly control the development direction of socialist advanced culture, advocate harmony concepts and nurture the spirit of harmony to further foster common ideals and beliefs for the whole society and solidify the ideological and moral base for the whole Party and people of various ethnic groups to work hard in unison.
- Enhancing public administration and maintaining social stability is a prerequisite of building a harmonious socialist society.
- We must innovate the public administration system, integrate public administration resources, improve the level of public administration, improve the public administration pattern that is under the leadership of the Party committee, the government taking the responsibility with cooperation from other organizations and with participation of the public.
- Service should be accompanied with administration and administration should reflect service.
- Socialist harmonious society is both a society full of vigor and a society of unity and harmony.
- We must stimulate the energy of society to its full, promote the harmony of relationship between political parties, ethnic groups, religions, strata and compatriots at home and abroad, consolidate the great unity of people of various ethnic groups and consolidate the great unity of Chinese both at home and abroad.

Appendix 2

CSR Guideline for State-Owned Enterprises (SOE)

2008-1-10 Author: SASAC Origin: ([SASAC](#))

CSR Guideline for State-Owned Enterprises (SOE)

by State-owned Assets Supervision and Administration Commission (SASAC), PR China

publicly issued on Jan 4, 2008

1. Fully understand the importance of CSR among SOEs

a. CSR is based on actions to implement the philosophy of scientific development. It requires SOEs to not only develop in a people-centered, scientific way and make profits, but also to take responsibility for all stakeholders and the environment, and

ultimately to harmonize the enterprise, social and environmental development.

b. CSR is a public expectation for SOEs. As key players in the Chinese economy influencing many important industrial fields, SOEs have a major impact on peoples' lives. Consequently, CSR is not only the mission statement of SOEs, but also a public expectation.

c. CSR is an unavoidable pathway for SOEs' sustainable development. SOEs can improve their capability for innovation, corporate culture, reputation and human resource management if they can actively integrate CSR into their business operations.

d. CSR is also necessary from the perspective of international economic dialogue and cooperation for SOEs. It has become a key criteria worldwide when people assess the value of a company.

2. General guidelines, requirements and principles

a. General guide: Uphold Deng Xiaoping's Theory and Three Representatives Thoughts, make SOEs CSR practice pioneers, and contribute to the development of well-off society.

b. General requirement: SOEs should enhance their CSR awareness, actively fulfill social responsibility, and become model companies with legal compliance, integrity, energy efficiency, environmental protection and harmony.

c. General principles: Combine CSR and the process of SOE reform, and regard CSR as a key component of the transformation of SOEs into modern corporate institutions and to enhance all-round competitiveness.

3. Key contents for SOEs to implement CSR

a. Operate with legal compliance and integrity

b. Continuously improve profitability

c. Improve product and service quality

d. Save energy and protect the environment

e. Push forward self-innovation and technology development

f. Ensure product safety

g. Protect labor rights and the interests of workers

h. Engage in philanthropic activity

4. Key measures for SOEs to implement CSR

a. Raise CSR awareness

b. Establish and improve institutional arrangements for CSR

c. Establish CSR reporting systems

d. Enhance company level communication and international collaboration

f. Strengthen party organizations' leadership when SOEs implement CSR

Note: This is a short English brief for #001 document issued by SASAC on January 4, 2008, entitled "CSR Guideline for State-Owned Enterprises". It is translated by Guo Peiyuan of SynTao.

http://www.syntao.com/E_Page_Show.asp?Page_ID=6407

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