

# **EXPLAINING SOCIAL REPORTING OF STATE-OWNED ENTERPRISES IN CHINA - A MARKET ECONOMY WITH SOCIALIST CHARACTERISTICS**

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## **EXPLAINING SOCIAL REPORTING OF STATE-OWNED ENTERPRISES IN CHINA - A MARKET ECONOMY WITH SOCIALIST CHARACTERISTICS**

### **ABSTRACT**

**Purpose** – In recent years, state-owned enterprises in China have been playing a leading role in social reporting. This study aims to investigate the reasons behind this phenomenon and explore the evolution of social reporting in China.

**Methodology** – This study uses content analysis to evaluate 210 annual reports and 117 social reports of the largest Chinese state-owned enterprises from 14 industry sectors for the period 2006-2010. The results are further triangulated by other tests to ensure reliability and validity.

**Findings** – The paper identifies the patterns and drivers for Chinese enterprises to disclose social information. The results demonstrate that the Chinese Government acts as an engine leading and driving state-owned enterprises to engage in social reporting. In response to the policy documents issued by the Chinese Communist Party, the quantity of social disclosure displayed a sharp increase since 2008 but without much noticeable improvement in quality. All these findings demonstrate that the political economy theory occupies a powerful position in explaining the social reporting practices in China.

**Originality/value** – This is the first paper in the Western academia to report, from an indigenous perspective, content analysis results of social reporting by Chinese state-owned enterprises so as to present the evolution of social reporting in this country. This is the first research to add such insight to the political economy theory for explaining social reporting practices of the largest socialist economy in the world. Furthermore, this study aims to impart awareness to Chinese enterprises in improving their social reporting quality and provide guidance for their stakeholders to evaluate the social reports objectively.

**Key words:** social accounting, CSR reporting, political economy theory, China, Chinese Government, Chinese Communist Party, social reporting framework, state-owned enterprises

**Article classification:** Research paper

## 1. Introduction

Although the Chinese economy has in the last decades been gradually characterized by many market economy elements, central planning is still an important mechanism for ensuring the stability of its macro-economic system. Hence, state-owned enterprises (SOEs) are the backbone of the national economy and this is exactly in line with the country's development strategy. As reported by *The Financial Times* in March 2010, 21 SOEs were listed in the *Global Fortune 500 Companies (GF500)* and have become major investors in foreign markets. This number continues to rise and in 2012 it was up to 79 as reported by *China Daily* in July 2012. Those SOEs in the GF500 list have a controlling ownership in many big firms listed on both the Chinese and overseas stock exchanges. It is therefore not an exaggeration to say that the SOEs represent China's image in the international community.

After more than three decades of reform and "opening up", China has attracted worldwide attention and since 2010 has become the second largest economy in the world. At its current stage of development, China is facing a major challenge of how to balance economic growth with the improvement in the livelihood of its people and environmental protection. To take into account social and environmental sustainability, SOEs are striving to set an example for other public companies in China as socially responsible pioneers (WTO, 2010). As a result, corporate social responsibility (CSR) reports issued by SOEs have become a focus of the Chinese research community and as an example for the world to observe the latest CSR practices of Chinese companies.

In the past three years, observations by several Chinese research institutions indicated that SOEs have produced CSR reports of better quality than other large private sector listed companies. For example, a research report issued by China WTO Tribune (a Global Reporting Initiative (GRI) certificated training partner in mainland China, Macau and Taiwan) evaluated 663 CSR reports released in 2010 and concluded that "*The quality of CSR reports issued by SOEs is significantly better than the average quality level of CSR reports in China*" (RCSRR, 2010, p.39). To explain this phenomenon in China, political economy theory (PET) is considered as the most applicable. It suggests social reporting conducted by enterprises is mainly for the purpose of protecting their self-interest under political and social pressures (Gray *et al.*, 1996; Guthrie and Parker, 1990). China's economy is led by the Communist Party which effectively exercises indirect macro-control through the government (the official term is "market economy with socialist characteristics <sup>[1]</sup>"). Beside economic policies and legislations, this indirect macro-control is mainly through providing planning guidance to SOEs for creating a stable, secure and orderly socio-economic environment. From this perspective, SOE's reporting behavior can therefore reflect the government's political and economic directions.

Therefore this paper aims to explore "*whether and how PET can explain the reason why SOE's social reporting quality is better than other types of enterprises?*" The answer to the research question is obtained through reviewing social reporting initiatives, policy documents issued by the Chinese Government and investigating content analysis results of annual reports and social reports issued by SOEs. In the

process it will identify the drivers of CSR reporting in SOEs. In terms of contribution of the paper, academically, this research is one of the first studies to explore the social reporting behaviors and practices of SOEs in China; thus it contributes to the extant literature in CSR reporting in the largest emerging market. Theoretically, it adds insight to the application of the political economy theory in socialist countries. Practically, it draws attention of Chinese enterprises to improve the quality of social reporting and guides their stakeholders to evaluate social reports in an objective manner.

The remainder of this paper is organized as follows. Section two reviews the literature on social reporting research, initiatives and theories; section three describes the research design and methodology; section four explains and discusses the main results and findings; section five concludes the paper with acknowledgement of limitations and suggestions for future research.

## **2. Literature Review**

The international community continues to pay increasing attention to the problems of environmental pollution, shortage of resources in the advent of globalization. All these emerging social problems put pressure on corporations to conduct business in a more socially responsible way. Therefore, a growing number of companies publish CSR reports to show their concern and social responsibility (O'Dwyer *et al.*, 2011; Archel, 2011; Malsch, 2013). According to KPMG's 2011 International Survey of Corporate Responsibility Reporting, 95 percent of the G250 (the largest 250 global companies based on the Global Fortune 500 ranking) issued CSR reports, representing an increase of 14 percent since the last survey in 2008 (KPMG, 2011). The rise of CSR reporting has led to numerous academic studies in this area. However, most of the researches have been conducted in the Western environment aiming at evaluating enterprises' social performance and finding out their characteristics in CSR reporting (e.g. Finland (Vuontisjarv, 2006; Kotonen, 2009), Demark (Nielsen and Thomsen, 2007) and the UK (Parsa and Kouhy, 2008; Day and Woodward, 2009)). As pointed out by Dobers and Halme (2009, p.242), CSR may be "twisted" in countries where institutional systems are weak, where property and human rights are overlooked or applied inconsistently, and the enforcement of law and regulations is arbitrary. Therefore, more researches are called for addressing the development of CSR reporting in developing countries (Belal, 2008; Jamali and Neville, 2011).

As the second largest economy in the world, it is obvious that China plays an important role in broadening the understanding of CSR reporting practices of developing economies. Since 2007, various researches about China have appeared in the international academia (Guan and Noronha, 2013). Generally, these studies can be classified into three groups. Research in the first group focuses on the relationship between corporate characteristics and CSR disclosure. For example, Xiao and Yuan (2007) used a regression model to examine the impact of ownership structure and board composition on voluntary disclosures of listed companies in China; Luethge (2012) empirically tested the relationships among firm size, profitability and

disclosure. Scholars in the second group concentrate on a specific topic of CSR reporting. For instance, An and Davey (2010) investigated the extent and quality of intellectual capital (IC) disclosure of Chinese listed companies through annual reports by applying content analysis methods. An *et al.* (2011) conducted related research, when they developed a comprehensive theoretical framework for interpreting voluntary IC disclosure practice. Studies which cover most of the CSR reporting aspects (such as environment, human rights, product responsibility, etc.) and various types of public companies are classified into the third group. Representative of this group is the work conducted by Kuo *et al.* (2012), in which the authors evaluated the quality of social reporting in China by using content analysis on CSR reports.

China has a different social structure, political and economic system from the rest of the world (Tisdell, 2009). Recently, the effectiveness of traditional CSR reporting in developing, transition and emerging countries, especially those with different economic and institutional structures, has been challenged by a number of scholars (Argandona and Hoivik, 2009; Devinney, 2009; Dobers, 2009; Dobers and Halme, 2009). Thus, the extent and originality of CSR reporting practices among Chinese enterprises is increasingly of interest to the international community. However, there is a scarcity of studies which have focused on the distinctiveness of social reporting practice in China such as the process of social reporting development and the incentives to disclose social information. Therefore, this study aims to fill up this gap from the particular perspective of SOEs.

### ***2.1 Theoretical basis and social reporting researches on SOEs in other countries***

Theoretical work on social accounting has produced a number of theories as to explain corporate motivations behind CSR reporting. Most of them were derived from the *Political Economy Theory* based on the bourgeois perspective (PET) (Deegan *et al.*, 2000), such as legitimacy theory and stakeholder theory which are within the framework of PET (Gray *et al.* 1995). According to Gray *et al.* (1996, p.47) “...political economy is the social, political and economic framework within which human life takes place”. Under PET, enterprises in capitalist countries need to consider broader socio-political issues that may have impact on their business operations and then decide what information it elects to disclose (Deegan and Unerman, 2006). While legitimacy theory requires public companies to consider the legitimacy of their activities and to claim what they have done in meeting the “social contract” (Deegan *et al.*, 2000). By changing the level of resolution, stakeholder theory encourages corporations to disclose CSR information for maintaining relationship with their stakeholders (Deegan and Unerman, 2006).

Recently, legitimacy theory appears to be the most frequently used theory in explaining the social reporting behavior of SOEs in many capitalist countries. Several studies have demonstrated that in order to build an ethical business environment, governments developed a lot of social reporting initiatives in regulating CSR reporting practice of SOEs or Government Linked Companies (GLCs). National Governments have long been viewed as one of the most important agents to influence the behavior of enterprises by defining and changing regulations, priorities and the

'rules of the game' for companies (Garwin, 1983; Weidenbau, 1999; Joseph, 2002). For example, Amran and Devi (2008) and Rahman *et al.* (2011) empirically investigated the influence of government on social reporting development and its impact on Malaysian GLCs.

Social reporting studies on Russia may be an alternative reference point to obtain a preliminary understanding of Chinese SOE's incentive to disclose social information. These two countries have many common characteristics both in economic terms and in structural terms. For instance, Russia also experienced a transition from a planned economy to a market economy and has undertaken a somewhat similar path in economic reform, though with a different process which shall emerge later. In the 1990s, Russia<sup>[2]</sup> had a high concentration on production (the economy of a city may have depended on a single industry or a large SOE) which had been inherited from the Soviet Union, previously the largest socialist country (Polishchuk, 2009). In recent years, government powers in Russia have been re-centralized and it has been left to sub-national levels of government (local governments) to exercise control over GLCs. In this situation, local governments generally have to rely on voluntary corporate social investment which is enforced by threats of various economic sanctions (Avtonomov, 2006; Polishchuk, 2009). In turn, the Russian government has started to act as an engine for promoting CSR in order to fit themselves into the international legitimacy system, which has led to an increasing trend of CSR reporting of multinational enterprises (Preuss and Barkemeyer, 2011).

It will be apparent that, similar to the Russian situation mentioned above, the government plays a major role in leading the social reporting development in China. However, the contrast in the two developments between these two countries is vivid. As mentioned, the Russian situation is better explained by legitimacy theory. According to Avtonomov (2006), Russian corporations were encouraged to take socially responsible actions in order to avoid various economic and trading sanctions from the international community. This suggests that organizations disclose CSR information in order to inform the public they have taken some socially desirable actions and to get approval (legitimacy) from the society for running their business (Deegan, 2002). It also suggests that social reporting and disclosure is a response to both public pressure and the media or social attention resulting from major industrial incidents (Patten, 1991, 1992; Walden and Schwartz, 1997; Brown and Deegan, 1999). From this point of view, legitimacy theory is also applicable to China in addition to stakeholder theory as they are often used to complement each other (De Villiers and Van Staden, 2006). Stakeholder theory implies various stakeholder groups (such as shareholders, employees, creditors, suppliers, local community, etc.) can affect, or are affected by a corporation's achievements/ activities (Freeman, 1984). Accordingly, these groups of people expect an enterprise to report how its business activities impact upon them (Deegan, 2006).

However, from a macro viewpoint, PET is more superior for explaining the Chinese comparing with legitimacy and stakeholder theory. In China, the SOEs' interests represent the state's interests and equally the CCP's interests which turns "social reporting" into an economic and political issue. Especially in the global

market, the government intends to improve China's image and presence by this means. In this situation, the PET applied to SOEs contains some particularly Chinese characteristics<sup>[1]</sup> and as such the current research aims to explore such unique characteristics with a hope of developing a new theoretical framework which may be of reference to China and other developing economies.

## ***2.2 Social reporting researches on SOEs in China***

According to the *China State-owned Industrial Enterprises Law*, SOEs refer to enterprises in which the capital is wholly or mainly invested by the state. They are either centrally owned or owned by provincial or local governments. In China, SOEs are the main providers of social security. Thus their responsibilities are not just to maximize shareholder value but also to assist the government to maintain strong social and economic stability, such as by providing enough positions to release the social pressure of unemployment, or by increasing productivity for contributing national GDP growth, etc. For this reason, social responsibility for over a thousand million people has been a central role for SOEs (WTO, 2010). Therefore CSR reporting in China is an efficient media for communicating a company's social performance to their stakeholders, as it has been in other countries (Guthrie and Mathews, 1985; Gray *et al.*, 1987). More and more listed companies in China have issued CSR reports in recent years (see *Figure 1*) and a majority of them are SOEs (RCSRR, 2010). The sharp increase in the number of CSR reports has also stimulated the interest of Chinese scholars' in the reporting quality of CSR. Some domestic research institutions have conducted comprehensive content analysis on the social reports issued by Chinese enterprises. Besides the research report (RCSRR, 2010) produced by the *China WTO Tribune*, starting from 2009, the national academic research institution - the Chinese Academy of Social Sciences (CASS) has been publishing annually the "CSR Blue Book". It has been claimed in each edition that national and state-owned enterprises had the most outstanding performance on CSR reporting; reports of most SOEs had met the demands of international standards (CSR Blue Book 2009, 2010, 2011). However, both RCSRR and the Blue Books only focus on the extent of social reporting practices, with no discussions on the content or the process or development of social disclosure practice. In order to address this, the following section outlines the CSR reporting development of SOEs and indicates the main "drivers" of social reporting by SOEs in recent years.

*(Insert Figure 1 Here)*

## ***2.3 Institutional reform and CSR reporting in China***

Before 1978, in the planned economy that existed at the time all Chinese companies were state-owned. The SOEs were the core of the whole economic system with numerous responsibilities, however that did not include the need to be profitable and this led to low efficiency and productivity. After 1978, when the reform and opening-up<sup>[3]</sup> started, the relation between state and enterprises became different. Whilst striving to increase their productivity, the companies had to focus on profits where competition was highly encouraged by the CCP. However, the new competitive

economic conditions brought hard times to many SOEs and the total number of industrial SOEs decreased massively from 120,000 in the mid-1990s to only 31,750 in 2004<sup>[4]</sup> because a large number of under-performing SOEs were privatized or eliminated during the reform (Naughton, 2006). The rapid economic growth in the late 1990s, due to privatization of SOEs was achieved at the cost of significant social impact, such as high unemployment, increases in the cost of living, and political unrest. During this transitional era, economic growth and competitiveness was the first priority and became the main target, while environmental and social concerns were generally overlooked. The consequences were increasing pollution, higher unemployment and rising inequality (He, 2006). The for-profit incentive approach was common among SOE managers, therefore CSR was considered as a source of unnecessary cost which had to be minimized at that time (Lantos, 2001).

Since 2000, especially after China became a member of the WTO, when NGOs, foreign consumers and the media started to take up the idea of CSR, the demand for social responsibility of public enterprises in China began to rise. With the internationalization of Chinese multinational enterprises (a majority of which were SOEs), CSR reputation was considered as a most serious trade barrier (Hopkins, 2007).

To improve the awareness of CSR in China, international initiatives like SA8000 and the GRI framework were introduced. CSR then became an important part of the CCP's policy for improving the image of the state, enhancing industrial competitiveness in the global market and balancing the relationships among different stakeholder groups (Pullam, 2006). Therefore, the CCP started to promote CSR with various initiatives by different bodies of the government (GTZ, 2008).

Since the Seventeenth National Congress of the Communist Party of China in 2008, the CSR reform started in earnest, focusing on CSR reporting as it was clear that social reporting is an effective media for communication. *Appendix I* summarizes some key standards and guidelines on CSR reporting issues in China. *Appendix I* shows that the central government had vigorously encouraged SOEs to issue CSR reports as “*a way to improve the brand, reputation and competitiveness of Chinese companies*” (KPMG, 2011, p.24). In response to the government's policy documents, the Shanghai and Shenzhen stock exchanges in addition to some industrial regulatory bodies had also required or encouraged public companies to make CSR disclosure. Over these years, the enforcement of CSR reporting of SOEs also became stricter due to several serious industrial scandals which happened since 2008. KPMG's (2011) survey comments, “*At different press events, various high-level officials from SASAC stress that all SOEs must issue a 2011 CSR report in 2012*” (KPMG, 2011, p.24). This may be considered as a major underlying driver which has caused a sharp increase in the number of CSR reports issued in recent years (*Figure 1*). With the government's promotion, the transparency and reliability of the reports issued by SOEs have attracted great attention in recent years. Mass media, NGOs and research institutions have all started to take a greater interest in disclosure and this has formed a quasi supervisory role in the social reporting practices of SOEs.

### **3. Research methodology**



The *Responsible Competitiveness Framework* (AA, 2009) developed by the *Institute of Social and Ethical Accountability*, points out that the development of a social reporting system is consolidated by the contribution of policy makers, business people and advocates of a civilized society. The framework implies social reporting of SOEs in China may not be exclusively led by the government; it may be partly driven by the needs of organizational expansion as well as the pressure from various stakeholder groups. Therefore, a comprehensive content analysis of annual reports and CSR reports issued by SOEs is one source of information in this study to disclose potential drivers. According to Neumann (2003, p.219): “... *content analysis is a technique for gathering and analyzing the content of text. The content refers to words, meanings, pictures, symbols, ideas, themes, or message that can be communicated.*” Holsti (1969, p14) offers a broader definition of content analysis as “any technique for making inferences by objectively and systematically identifying specified characteristics of messages.’ He states that ‘only the manifest attributes of text may be coded . . . [from which] inferences about latent meanings of messages are permitted” (Holsti, 1969, p598). This technique has been widely used in social reporting academia in the past decades (Gray *et al.*, 1995; Adams *et al.*, 1995; Adams and Harte, 1999; Perrini, 2006; Mirfazli, 2008).

### **3.1 Sampling method**

A combined stratified and cluster sampling selection method was adopted. A number of firm-year observations were selected for the period of 2006-2010 which covered 14 industry sectors (categorized by China Securities Regulatory Commission in 2001). The base document is a list of Chinese enterprises from 2006 to 2010 which was generated from CSMAR<sup>[5]</sup>. The list was sorted by year, industry and capital size. A company is coded as SOE when its largest shareholder is an agent of the state, local SASAC<sup>[6]</sup> or another SOE. Then, five schedules of SOEs were prepared by years. To ensure the representativeness of the research results, for each fiscal year, the top three SOEs in terms of capital size were selected from each industry. Finally, a sample list that contains 210 firm-years was created, these being the units of analysis.

The annual reports and CSR or sustainability reports were gathered in the following ways. First, all annual reports and some CSR reports were collected from the Shanghai Stock Exchange ([www.sse.com.cn](http://www.sse.com.cn)) and the Shenzhen Stock Exchange ([www.szse.com.cn](http://www.szse.com.cn)). Second, for those SOEs whose social reports are not available from the two Stock Exchanges’ websites, news was searched respectively through [www.cninfo.com.cn](http://www.cninfo.com.cn)<sup>[7]</sup>, [www.google.com](http://www.google.com), [www.baidu.com](http://www.baidu.com) and official websites of the SOEs, to double check whether they have issued social reports. If there were additional CSR or sustainability reports online, electronic copies were downloaded. As such, a total of 210 annual reports and 117 social reports were collected as shown in *Table 1*. In total, the whole research process involved at least 4,571 working hours for reading more than 33,630 pages of the reports in order to conduct an in-depth analysis of social reporting practice of selected enterprises.

*(Insert Table 1 here)*

### **3.2 Codification**

A coding sheet was prepared based on the GRI-G3 checklist (www.globalreporting.org) which includes a content index for social reporting. Six trained coders analyzed and coded the data, to ensure the consistency, a coding manual was developed, which consists of definitions or rules for assigning codes and examples (Weber, 1990; Babbie, 2010). Coders were not informed of the intent of the study. They were asked to code the relevant information from annual reports and social reports in the coding sheet including the number of CSR key words, the coverage of CSR dimensions, SOE's attitude to social reporting and bad news being disclosed. The coding rules in this study are summarized as follows:

- *CSR key words.* A list of key words in Chinese was prepared according to the content of the GRI-G3 guidelines. Coders counted the number of individual key word related to each CSR dimension (*see following point*) in the Chinese annual reports and social reports. Commonly, two or more Chinese characters represent one English noun. For example, “social responsibility” is formed with four Chinese characters - “社會責任 (She Hui Ze Ren)” which is treated as one CSR key word in this study.
- *CSR dimensions.* Four dimensions of profile disclosures, six dimensions of performance indicators and social reporting aspects of each dimension are listed in the coding sheet according to GRI-G3 (*see Table 2*). “1” is coded in the field of a CSR aspect if relevant information is disclosed in the selected report and “0” is coded for non-disclosure. Intensive training was provided to the coders to ensure their understanding of GRI.

*(Insert Table 2 here)*

- *SOE's attitude to CSR disclosure.* A number of scholars have used content analysis of written messages to determine attitudes toward animals (More, 1977), natural environments (Fazio, 1979; Burrus-Bammel *et al.*), management proposals (Stankey, 1972) and social disclosure (Abdul and Ibrahim, 2002). According to Shiraey and Sobel (2005)<sup>[8]</sup>, content analysis is treated as a non-survey method to be used in studies of people's opinions and for measuring their attitudes. In this research, the determinant of the SOE's attitude towards CSR reporting is subject to the quality of CSR information being disclosed. Quality is evaluated and ranked into five quintiles. “1” is coded if information presented is very general without explanation or description; “2” is coded if information presented is general with little description or explanation; “3” is coded if information presented is rough and brief with some description or explanation of issues; “4” is coded if information presented is specific with detailed description or explanation of issues; “5” is coded if information presented is very specific with detailed description or explanation and supporting monetary and statistical numbers or graphs. A SOE's attitude is considered as “positive” when its average score of all the CSR dimensions is “4” or more. In contrast, a SOE's attitude is treated as “negative” when the score is “2” or less; the remainders are coded as “neutral”<sup>[9]</sup>.
- *Good news and bad news disclosure.* Total pieces of good news and bad news disclosed in annual reports and social reports are also counted and recorded in the coding sheet. The purpose is to check whether companies only focus on reporting

good news and overlook the disclosure of their faults or bad behavior which may impair their image or goodwill.

### ***3.3 Reliability of data set***

Although a fairly standardized procedure is used in the content analysis of this study, validation of the consistency of coding results produced by different coders is necessary and important (Babbie, 2010). Before starting the analysis, two tests were arranged. Coders were asked to code a sample report in each test and their judgments were checked and compared. The inter-coder agreement coefficient ( $IAC = \frac{\text{agreements}}{\text{agreements} + \text{disagreements}}$ ) was 0.781 in the first round test which is below the 0.8 rule of thumb for being good set by Krippendorff (1980). Thus, any disagreements were resolved through discussions among the coders and with the authors. In the second round test, the coding consistency was improved and the IAC increased to 0.916. After completion of the analysis, the same test was conducted and the result showed an IAC of 0.933 which means 93.3% of the coding items were agreed by the coders.

Regarding external reliability, the most important aspect is to make sure that people agree that the reports are disclosing the same CSR phenomena as what they have learned about from the community (Krippendorff, 1980; Babbie, 2010). That means CSR information or data disclosed in the SOE's annual and social reports is about something factual. To measure the reliability of source information and data, 10 percent of the annual reports and social reports analyzed were randomly selected. Three evaluating procedures were performed: first of all, the existence of third party assurance was checked. As all the observations are listed companies, their annual reports were audited by independent CPA firms. Thus, the CSR information disclosed in an annual report is considered as more reliable than that in a social report without third party assurance. Secondly, information from the social reports was cross-checked with the annual reports and vice versa. Finally, if bad news or significant issues were disclosed, relevant information was further checked through the mass media, such as newspapers and the internet. The result showed that 97.7 percent of 473 data items could be cross-checked in annual reports and social reports; 98.6 percent of 69 pieces of bad news and significant events corroborated with relevant news reported by mass media. Therefore, both internal and external reliability for the data set can be assured.

## **4. Discussion and Analysis of Findings**

### ***4.1 The Chinese government leads the development of CSR reporting***

Concerning the levels of CSR information disclosed in the SOEs' annual reports (see *Figure 2 and Appendix II*), out of 10 categories, six of them (namely organizational profile (OP), economic (EC), environment (EN), labor practices and decent work (LA), society (SO), product responsibility (PR)) showed a general increasing trend in terms of the coverage of CSR dimensions required by GRI. This is in line with our discussion in *Section 2* that the government and its regulatory bodies

have continuously since 2006 required listed companies, especially SOEs to disclose their CSR practices (see *Appendix D*). As a result, the extent and variety of disclosed CSR information has improved. Additionally in order to ensure the consistency of this finding, the number of CSR key words in the annual reports was counted by the year and the result showed a similar increasing trend (see *Figure 3*). It indicated a rise in CSR disclosure quantity which further demonstrates the SOEs' taking note of government initiatives and recognition of the government as their key stakeholder. That is, they have become increasingly aware of the government's policy documents and initiatives as well as its authority in the promotion of social reporting.

*(Insert Figure 2 and 3 here)*

However, in contrast with the statistics of CSR reports issued in *Figure 1*, no sharp increase of CSR coverage was identified in the 2009 and 2010 annual reports. One possibility is the SOEs focused highly on the financial issues in their annual reports as 2009-2010 was a critical period of economic recovery after the 2008 financial crisis. Thus, they may not be so highly sensitive to the enforcement of CSR initiatives by the central government in 2009 and 2010, given the extent of the economic crisis. This is reflected in *Figure 4*, the diversified CSR disclosure in annual reports was not accompanied by the increase in the reporting quantity of CSR dimensions. For further analysis, the statistics of social reports (see *Figure 5*) was checked. The overall trend, though not very obvious (most of the significant changes of reporting coverage in 2009 or 2010 were distorted by 2008's sharp increase), showed clear increments in 2009's RP, 2010's GCE and 2010's EN which were mainly driven by the two major initiatives. In December 2009, CASS issued *China's Corporate Social Responsibility Reporting Guidelines, Version 1.0*. The main purpose was to educate Chinese enterprises on how to report and what should be reported. In the content of the guideline, management approach, report scope, report boundary, governance and commitments are emphasized, most of them can be reconciled to the relevant aspects in RP and GCE dimensions of GRI.

In early 2010, the Chinese government announced the detailed targets of its 12<sup>th</sup> Five-year Plan which was mainly aimed at reducing greenhouse gas emissions by 40-45 percent. During the same period, in March 2010, SASAC issued *Interim Measures for Governing SOE Energy Saving and Emission Reduction*. This event led to a strong concern for environmental disclosure in the 2010 social reports.

*(Insert Figure 4 and 5 here)*

In the CSR field, enterprises are commonly separated into high or low profile industries (Patten, 1992; Hackston and Milne, 1996). High profile industries are those with consumer visibility, a high level of political risk, or concentrated intense competition (Roberts, 1992) and their operating activities are expected to have much impact on the economy, environment and society (Newson and Deegan, 2002). Several researches found that high profile companies disclosed more social and environmental information than low profile companies (Roberts, 1992; Choi, 1999; Ho and Taylor, 2007). In this study, according to the situation in China and in the global market, the following five industries are classified as high profile industries: mining, heavy manufacturing, utility, finance and insurance and real estate. The rest

are classified as low-profile industries. To compare the CSR reporting behavior of SOEs in high-profile and low-profile industries in China, a Chi-square test (using SPSS 18.0) was conducted which yielded two  $\chi^2$ - values of 61.495 ( $p=0.002$ ) for annual reports and 85.523 ( $p=0.000$ ) for social reports respectively. It indicated that a significant difference existed between CSR reporting practice of high-profile and low-profile SOEs. The analysis was further broken down into CSR indicators and aspects. *Table 3* shows on average, a larger percentage of high-profile SOEs report social information in each dimension relative to that of low-profile SOEs. This demonstrates high-profile enterprises tended to disclose more CSR information and the difference was more obvious in social reports compared to annual reports. Furthermore, a significant distinction was identified between these two groups of SOEs in the dimensions of environment ( $\chi^2$ -values =20.123,  $p=0.0099$  and 20.237,  $p=0.0095$ ), labor ( $\chi^2$ -values=10.809,  $p=0.0288$  and 17.951,  $p=0.0013$ ), society ( $\chi^2$ -values=12.582,  $p=0.0135$  and 10.030,  $p=0.0399$ ) and product responsibility ( $\chi^2$ -values=8.541,  $p=0.0737$  and 13.189,  $p=0.0104$ ). The occurrence of this phenomenon (level of disclosure) can be shown to align with the pronouncements of trade organizations and industrial regulatory bodies during the observed period of 2006-2008, such as the China National Textile and Apparel Council (CNTAC) and the China Banking Industry Association (CBIA) (see *Appendix I*). In 2006 especially, the CNTAC established the example of Chinese Industries issuing social responsibility reports; in 2007, the China Banking Regulatory Commission (CBRC) issued Opinions on Strengthening the Social Responsibilities of Financial Institutions in the Banking Sector; in 2009, the China Federation of Industrial Economics (CFIE) issued social reports in the Great Hall of the People which had built an issuance platform of CSR reports of industrial companies and organizations.

The government and its agencies as well as industrial organizations generally pay significant attention to enterprises in fulfilling their social responsibility. In recent years, they have released a series of policy documents, guidelines and instructions to provide solid support and encouragement for Chinese enterprises to develop social reporting. This applies especially to SOEs. Beside the policy documents listed in *Appendix I*, in 2008, the State Asset Regulatory Commission of the State Council issued Guidelines for Central Enterprises to Fulfill Social Responsibilities, in which social responsibilities of central SOEs was clearly laid out (Li and Liu, 2010). This is also an important factor which drives the increase in the coverage of CSR dimensions in social reports (e.g. EN, LA, HR, SO and PR) in 2008 (see *Figure 5*). All these findings further confirm the proposition made in Section 2.1: that the promotion of social reporting is driven strongly by the Chinese government; SOEs continuously increase the extent and coverage of CSR information disclosed in their annual reports and have issued more CSR reports to the public from 2006 to 2010.

*(Insert Table 3 here)*

#### **4.2 SOEs' attitude to social reporting**

Overall speaking, according to the content analysis results, the quality of CSR reporting of SOEs in both annual reports and social reports showed an increasing

trend from 2006 to 2010 (see *Figure 6*). Although the SOE's recognition of the importance of social reporting has improved and turned from "negative" (1.15 points in 2006) to "neutral" (2.45 points in 2010). The average quality score has not yet reached 3 points, the middle level (information presented is rough and brief with some description or explanation of issues) up to 2010 which shows CSR reporting of SOEs still needs to develop further. This finding is in line with the result of Kuo *et al.*'s research (2011) and similar to the research findings in the case of Bangladesh (Belal, 2008), Indonesia (Mirfazli, 2008), India (Raman, 2006) and some other developing countries. To further break down the analysis into CSR dimensions (see *Figure 7*), ignoring EC in annual reports (as financial issues are the major topic in annual reports), only EN and PR in social reports exceeded the 3-point level. At first, it was believed that SOEs undertake social reporting activities with very positive attitude based on the analysis in *Section 4.1*. However, after exploring further the quality issue, it was found that a majority of the observed SOEs did not provide much detail in social reporting as most of the information disclosed was rough and brief.

*(Insert Figure 6 and 7 here)*

In addition, the causes of significant improvement in disclosure quality of 2008's reports also need to be explored (see EN, HR, SO and PR in *Figure 7*). Superficially, the sharp increase in the quality score is mainly due to a vigorous drive staged by the central government and its authorities (see *Section 4.1*). However, there were also social pressures on this disclosure and through this a more thorough picture can be obtained. A serious industrial scandal happened in 2008 in China and the society had become much more aware of CSR. Melamine-tainted milk powder produced by San Lu Corporation, one of the largest producers in the dairy industry, killed at least six infants and more than 300,000 children were made ill. While the Chinese mass media spent considerable effort exposing the scandal, people started to realize that no information about the supply chain was disclosed in San Lu's annual reports and the key problems of milk products were avoided in their annual and social reports issued after the exposure of the event. As a result not only the entire Chinese society, but also the international community lost confidence in Chinese dairy products and this had brought significant negative impact on the industry, China's image and the reputation of Chinese enterprises in general. This was an important driver which stimulated the government's actions in releasing a considerable number of CSR and social reporting initiatives at the end of 2008 (*Appendix D*). In response to the policy documents, Chinese enterprises produced more social reports and disclosed a wider range of CSR information, but the quality of disclosed information still left much to be desired.

To further explore the situation, in 2010 greater importance was attached to the environmental and product responsibility issues in annual and social reports (see EN and PR in *Figure 7*). Despite the announcement of 12<sup>th</sup> Five-Year Plan targets in early 2010, another factor drove this behavior of the SOEs. In 2010, one industrial scandal and two serious pollution incidents shocked the whole Chinese society. The first was related to products of China's largest pork processing enterprise, Shuanghui Group which contained an illegal additive (Clenbuterol). This scandal had further

damaged consumers' confidence in the food processing industry in China. The second was acidic wastewater containing copper leaked from Zijin Mining Group factory (China's largest producer of gold) into the Ting River in Fujian Province. This accident had led to about 378 kilograms of dead fish. A further example relates to China National Petroleum Corporation. Two oil pipelines burst and leaked oil damaged the popular beaches and fisheries in Shandong Province and smoke shrouded much of downtown Dalian. Interestingly many other SOEs, which were not involved in these scandals, also voluntarily disclosed more detailed information related to environmental and product responsibility issues in 2010. A possible explanation here is that they intended to distinguish themselves from those "bad examples". It is also observed that for those SOEs with industrial accidents and scandals, the quality of disclosed information has been improved, probably in order to restore their reputation and image. However, "how to protect the environment" still occupied the main content of their social reports after the incidents had brought about huge social costs, and not much disclosure of any aftermath of the incident was made. Furthermore, even though scandals began to increase and were widely reported by the mass media in recent years, not much bad news was disclosed in annual and social reports issued by the SOEs (see *Appendix IV*). All these findings demonstrate social reporting is an effective window-dressing tool, through which many SOEs are highly motivated to 'whitewash' their image and through which, those SOEs with bad news, intend to improve their tarnished image.

In summary, the content analysis results discussed in Section 4.1 and 4.2 show the SOEs' quick improvement on disclosure quantity, but their progress in enriching the quality of their reports remained slow. This is mainly due to the fact that the SOEs are eager to improve their social reporting performance in response to the government's call; however education of CSR reporting was overlooked during the same period of time. The SOEs Executives Summit held at the end of 2007 pointed out that the State-owned Assets Supervision and Administration Commission of the State Council (SASAC) would promulgate "Guidance and Advice on the Fulfillment of Social Responsibilities" requiring all SOEs to proactively take on CSR and set example for others. However, a complete domestic CSR reporting guideline was issued very late in 2010 (see *Appendix I*). Therefore, it is difficult to produce a high quality report without systematic training and deep understanding of the CSR reporting ingredients. Although, the CSR reporting performance of SOEs still has much to be desired and has a long way to go, their efforts in this area can be clearly observed as analyzed in the previous sections and they also keep enhancing their reporting quality and transparency by studying CSR guidelines and initiatives. In addition, their practice did stimulate other public companies' awareness in CSR reporting. As mentioned earlier, several important CSR policies announced in 2008 drove the dynamic improvements in the SOEs' CSR reporting performance (see *Figures 3 and 8*). Thereafter, the total number of CSR reports issued by listed companies increased sharply in 2009 and 2010 (see *Figure 1*). Considering the close relationship between the central government and SOEs, it is believed that the government's policies have always been efficiently and properly interpreted and

reflected in the SOEs' reports. Therefore, public companies often treat the SOEs as leaders in CSR implementation in the process of compiling and releasing their own CSR reports (opening speech made in *The Third International CSR Forum* in 2008, Beijing).

### ***4.3 Multilayered CSR reporting framework of SOEs***

In the previous sections, potential drivers of and management attitudes to social reporting in China are discussed based on the content analysis results. According to many scholars, inferences about latent meanings of content are permitted by using content analysis techniques, but they require corroboration by independent evidence (Merton, 1968; Holsti, 1969; Heilman, 1976; Berg, 2008) Therefore, by incorporating the findings from content analysis results (see *Section 4.1* and *4.2*) with literature (see *Section 1*) and information collected from the mass media (see *Section 4.2*), a multilayered CSR reporting framework of SOEs is constructed and composed by a top-down model (*Figure 8, Part I*) and a bottom-up model (*Figure 8, Part II*). This is used to illustrate the development of social reporting in China.

*(Insert Figure 8 here)*

#### *4.3.1 Top-down Model*

With the rapid development of global economic integration, in response to calls in the late 1990s to increase consumer confidence in international markets, sustainable development and CSR became a major focus of the world. Businesses worldwide started disclosing information about sustainability or CSR performance in the form of annual reports. The GRI was born at that stage to guide companies producing CSR reports. For many international enterprises, social reporting was an education and process by which responsible competitiveness can be improved (Lim and Tsutsui, 2012).

Along with the progress of economic globalization, China is facing many shocks and challenges. Internally, China is under a political system which has been called "socialism with Chinese characteristics" (many western politicians called it "state capitalism"). China is still in the transition period from a planned economy to a market economy which is called by the Chinese government "market economy with socialist characteristics". In other words, China is following a preferred policy for economic development - "middle way economics" suggested by Samuelson (2008). Under "middle way economics" theory, not too much freedom is given for market forces and definitely also not too little (mentioned by Samuelson in his letter<sup>[10]</sup> for the first Global Management Forum organized by China Europe International Business School in November 2008). At this stage, economic and social organs are not entirely ready to adjust themselves for new global CSR climate changes. To facilitate this development, the state has to establish regulations, laws, and introduce appropriate competition policies during the economic transition process (IMF, 2009).

In the past decade, China's tremendous development has attracted worldwide attention. In order to ensure the continuous economic growth and to establish itself in a good position in the competitive global market, China has to improve its domestic



business environment and image for attracting foreign partners and investors. Especially in 2008, the impact of the international financial crisis and the effect of anticipated climate change on the world economy, environment and community made the accelerated transformation of China's economic growth an urgent necessity.

To meet these challenges, China has chosen the way of sustainable development. Not only for meeting the calls of the international community, but also for the need of sustainable growth itself, the Chinese government at all levels attaches great importance to CSR and sustainable development. As mentioned in *Section 2.3*, related CSR regulations and measures issued by relevant governmental organizations, local governments and industrial organizations have created a better environment, and therefore directed and promoted CSR performance, and pushed forward the process of sustainable development of enterprises. In 2008, Chinese president Hu Jintao made a speech on the AOEC CEO summit, especially on the subject of CSR. He pointed out that: "With the background of upgraded development of economic globalization, enterprise leaders should have the view of global responsibility, actively adopt the idea of social responsibility into business strategies, follow the prevailing business practices and legislation of local countries and use their best efforts in their pursuit of the unification of economic interest and social welfare." During the same year, great importance was attached to CSR in the 17<sup>th</sup> National Congress of the Communist Party of China as social reporting was seen as an effective way for Chinese enterprises to communicate with their stakeholders and the outside world. Afterwards, attention was paid to localize international CSR initiatives (such as GRI, Accountability, SA 8000, ISO26000, etc.) with Chinese characteristics.

In 2008, the Chinese Government encouraged the growth of sustainability reporting with the issuance of SASAC's 2008 document on CSR implementation of SOEs. In the document, it is clearly stated that issuing CSR reports is one of the important CSR practices in SOEs. In response to the government's call, SOEs as the backbone of the national economy need to set an example for CSR reporting and proactively improve their reporting performance. As shown by the content analysis results in *Section 4.1*, the overall coverage and quantity of CSR disclosure increased sharply as a result, especially in 2008. In considering all this evidence, it is concluded that the social reporting practices of SOEs is strongly influenced and led by the state and the CCP. In addition to the above political and economic considerations, building CSR awareness in China is also accompanied by market and institutional factors (*see Figure 8, Part D*). However, the initial motive of the CSR reform in China is to ensure the interests of the state and the people among the international community. From this perspective, social reporting of SOEs is more related to political and economic issues.

#### *4.3.2 Bottom-up Model*

CSR reporting has attracted considerable public attention. The media plays a role of supervision and consumers become an important driving force in compelling enterprises to fulfill their social responsibilities and disclose more CSR information in their reports. When scandals occur or unethical behavior is identified, especially by the mass media and consumer groups, the enterprises involved are quick to improve

their CSR reporting practices by being self-critical in an effort to restore their reputation and business image. Additionally, many other enterprises voluntarily disclose more social information in order to distinguish themselves from those “offending” companies. On the other hand, industrial accidents and scandals stimulate the industrial regulatory bodies’ and the government promotes and standardizes the social reporting practice in China. As mentioned in Section 4.2, the government and its authorities issued many important policy documents and initiatives to guide Chinese enterprises in conducting social reporting activities in the fourth quarter of 2008, immediately after the occurrence of several serious industrial accidents and scandals. Through this, the government is aiming to build a sustainable business environment, restore consumer’s confidence and improve the image of the state in the international community.

To simplify and overview the top-down and bottom-up models and combine them into a cohesive whole, *Figure 9* summaries all the factors involved. It provides insight into the various factors which have stimulated the development of social reporting of SOEs in China. In contrast to *Accountability’s* framework, in this study the demand for business expansion is not found as an endogenous driver of social reporting development. A press release by Kinross and Render<sup>[11]</sup> in November 2009 about the top 10 values of organizations in the international market showed that social responsibility was fourth in 2006 and seventh in 2009 (Holme, 2010) This points to a reduction in the importance of CSR in a time of recession. A contrasting result is identified in the current research, where increasing trends from different perspectives are found in the SOEs’ social reporting practice, especially during the recession period from 2008 to 2010. Thus, market needs are not a major factor which drives the SOE’s social reporting practice. This further supports the belief that “*the central government is pushing SOEs to publish CSR reports as a way to improve the brand, reputation and competitiveness of Chinese companies*” (KPMG, 2011, p.24) and the image of the state is improved at the same time (see *the bottom of Figure 8, Part II*). Therefore, these findings demonstrate that the CSR reporting practice of SOEs in China is unique and this comes from the special nature of the Chinese political and economic system. It is observed that PET is powerful in explaining the social reporting situation of SOEs in China while legitimacy theory and stakeholder theory are also prevalent but of much lesser significance.

*(Insert Figure 9 here)*

## **5 Conclusions**

Prior studies have discussed widely the approaches of and incentives for social reporting in Western economies. In recent years, although there has been considerable interest in research applied to the developing world, there is still significant scope to address CSR research in the BRICs countries. This study therefore fills an important gap and identifies the major driver of the development of social reporting practice in China, the largest economy in the BRICs and the second largest economy in the world. A multilayered interactive framework is constructed to explain the development and drivers of social reporting in China which reflects the uniqueness of the Chinese

situation. The results of this study demonstrate that the Chinese government acts as an engine leading and driving social reporting practice of SOEs. In response to the policy documents released by the CCP and various government authorities, SOEs perform better than other types of Chinese public companies in social reporting. This is in terms of reporting quantity and coverage, but it appears not enough effort is placed on the quality. It is also noted that the central government has economic, political and social incentives to promote, encourage and also to control the development of social reporting. Furthermore, many SOEs in China are conditioned to use social reporting as a window-dressing instrument for improving or enhancing brand image and reputation rather than for long-term corporate development.

Academically, this paper contributes to the extant literature, and is the first paper in the Western academia to report, from an indigenous perspective, content analysis results of social reporting by Chinese SOEs and to develop a unique multilayered interactive framework to present the evolution of social reporting in this country. Theoretically, the application of PET to explain CSR reporting has been widely discussed and explored in the Western academia and in countries with well-developed capitalist systems. This is the first research to add such insight to PET for explaining the social reporting practice of the largest socialist economy in the world. Finally, it is hoped that this study can provide a point of reference for Chinese enterprises to improve their social reporting quality and provide guidance for their stakeholders to evaluate the social reports objectively.

There are limitations which hopefully future researches can address. This study concentrates on SOEs and further research can be extended to enterprises from private and foreign investment sectors which may help generate a broader picture of social reporting behavior in China. Moreover, a further question raised from the result of this study is yet to be answered and needs to be followed up in the future, which is “*why is the quality of SOE’s social reporting far below the desirable level while they are continuously putting effort in disclosing more information and covering wider dimensions?*” Lastly, future research may also undertake a cross-country study of the developing world to investigate and compare the evolution patterns and key drivers of social reporting development.

## Endnotes

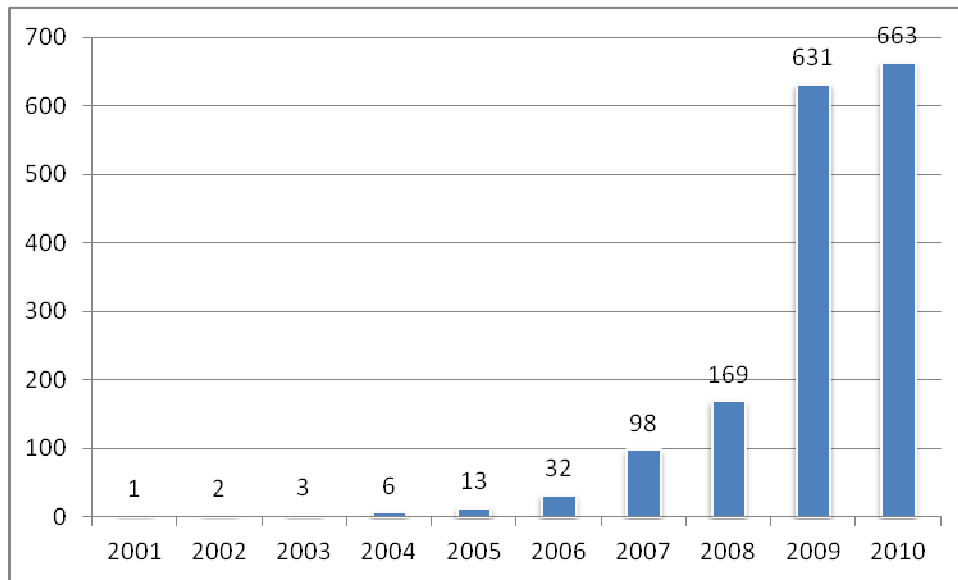
1. The uniqueness of the economic system (market economy with socialist characteristics) in China is reflected by following features:
  - Firstly, in a market economy, market itself should play a basic role in allocating resources and their prices are determined by supply and demand. However, in China, some resources, such as oil and some industrial products, like steel are mined or produced under central planning through SOEs and their prices are controlled by the related government authorities.
  - Secondly, from an economic perspective, China's market economy uses public ownership as the mainstay, including private and a wide variety of other economic sectors. At the same time the relationship between the state and enterprises is still tightly held together by SOEs, although most of the SOEs have been listed in the capital market.
  - Thirdly, from a political perspective, according to the official statement, market economy in China is an essential way to realize socialist modernization. It is a difficult undertaking, and only under the leadership of the Communist Party of China, can it be achieved.
2. The Soviet Union was crumbled and Russia was born in 1991. Since 1992, Russia employed the shock therapy to accomplish the transformation from a socialist economy to a capitalist economy
3. "Reform and opening-up" are two policies initiated by Deng Xiaoping and implemented at the same time. "Reform" refers to enliven the domestic economy; "opening-up" refers to open up to the outside world. Deng Xiaoping described "the reform and opening-up policy is just like wading across the stream by feeling the way."
4. This issue is related to the reform of SOEs in the history. Market-orientated reforms were initiated with the promulgation of the *Regulations Concerning Deepening Enterprises Reform and Increasing Vitality of Enterprises*, issued in 1986, and *Provisional Regulations Concerning the Contract Operational Responsibility System in State-owned Industrial Enterprises*, issued in 1988. Between 1988 and 1992, the speed of SOE reform slowed down due to concerns about the social and economic impact of reform, such as high unemployment, increases in the cost of living, and political unrest. However, the economic performance of the majority of SOEs remained at a very low level. For example, in Zhucheng city, Shandong province, 103 of the 150 SOEs were running at a loss at the end of 1992, with total losses amounting to 147 million yuan – equivalent to the municipal government's entire revenue for 18 months. It was not until Deng Xiaoping's now famous Southern Tour (visited cities in Southern China ) in early 1992 that the reform process got back on track. Deng called for an intensification of reform and urged officials to think less about ideological correctness and more about economic development. In Deng's own words: "It doesn't matter if a cat is black or white, as long as it catches mice, it is a good cat." In July 1992, the government issued *Regulations on Transforming the Operational Mechanism of*

*State-owned Industrial Enterprises.* These regulations allowed inefficient, under-performing enterprises to completely overhaul their structure. The government also allowed some SOEs to be leased or sold to the public or the employees. Therefore, in later 1990s, all SOEs had been restructured and majority of them had been partially or fully privatized. Although the number of SOEs fell, at the same time, industrial output increased.

5. CSMAR is a leading global provider of China financial market data, China industries and economic data, whether real-time, delayed or historical (over 55 years for the latter two), to international financial and educational institutions. (Official website: <http://www.gtafib.com/dataproduct/database.aspx>)
6. The State-owned Assets Supervision and Administration Commission of the State Council.
7. [www.cninfo.com.cn](http://www.cninfo.com.cn) is the official web site appointed by The China Securities Regulatory Commission to issue company news, including CSR news.
8. In Shiraev and Sobel (2005), the following examples are given to illustrate how to use content analysis for measuring attitude: “Things are good now, but everything is getting worse” is a reflection of both “positive” attitude and pessimism. To the contrary, the statement: “Things are terrible now, but I hope the situation will change” reflects “negative” attitude and optimism.
9. For example, the following disclosure only entitles to “1” point as the company only gives a general sentence without any details:  
*“Employment of local people and promotion of excellent local employees into the management not only enhance the Company’s labor capital, but also bring economic benefits to the local society and strengthen the Company’s ability to learn the needs of the local market”.*  
A good example which can be coded as “5” is shown below:  
*“The Company guarantees to protect the employees’ free employment and labor freedom rights, and is dedicated to creating a good working environment for them, encouraging their working enthusiasm, improving the system of talent retention through attractive benefits, caring hearts, and promising career development, and elevating the employees’ satisfaction and loyalty. In this way, the employee turnover rate has been kept at low level in years. During the three years from 2006 to 2008, the turnover rate was respectively 0.6%, 0.9% and 1.1%; at average, the male-female ratio of employee turnover was 5:1; the rate of employee turnover under the age of 30 years old was 60%, and the rate within the age of 30-40 years old was 30% at average.”*
10. On December 6, 2008, Samuelson could not attend the first Global Management Forum held by the China Europe International Business School in Shanghai due to health problem. Pedro Nueno read out the letter Samuelson prepared for the Forum in November 2008. People treat this letter as his “testament” to China.
11. Kinross and Render is an international full-service public relations consultancy in London. They provide expertise in CSR, crisis relations, international campaign management, etc. They conducted a global survey about CSR issue in 2009 and

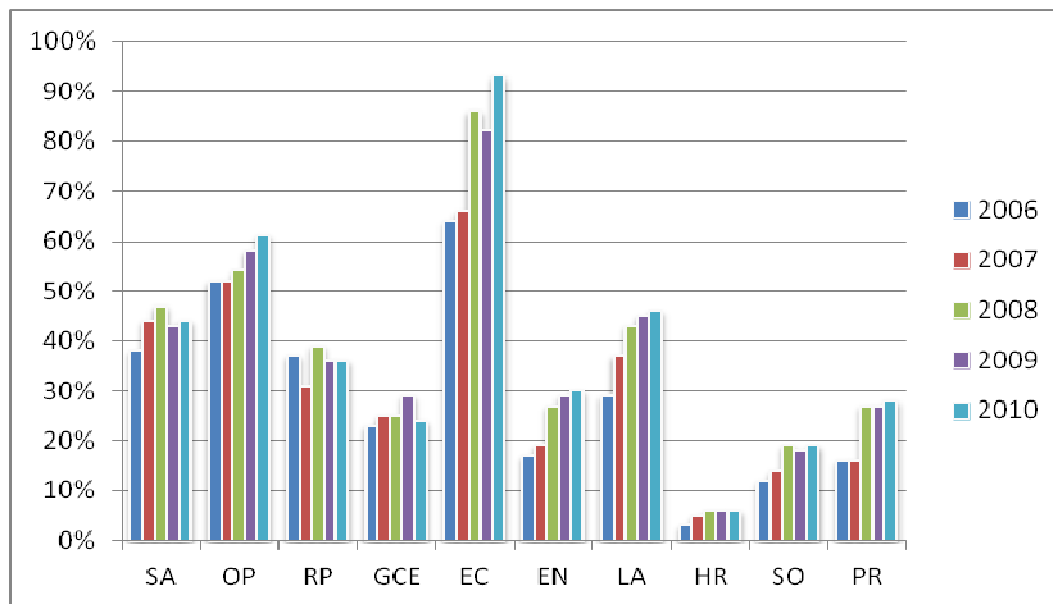
based on the survey result, they released a press entitled “Companies declare allegiance to their people”.

**Figure 1: Number of CSR reports issued by listed companies in China**



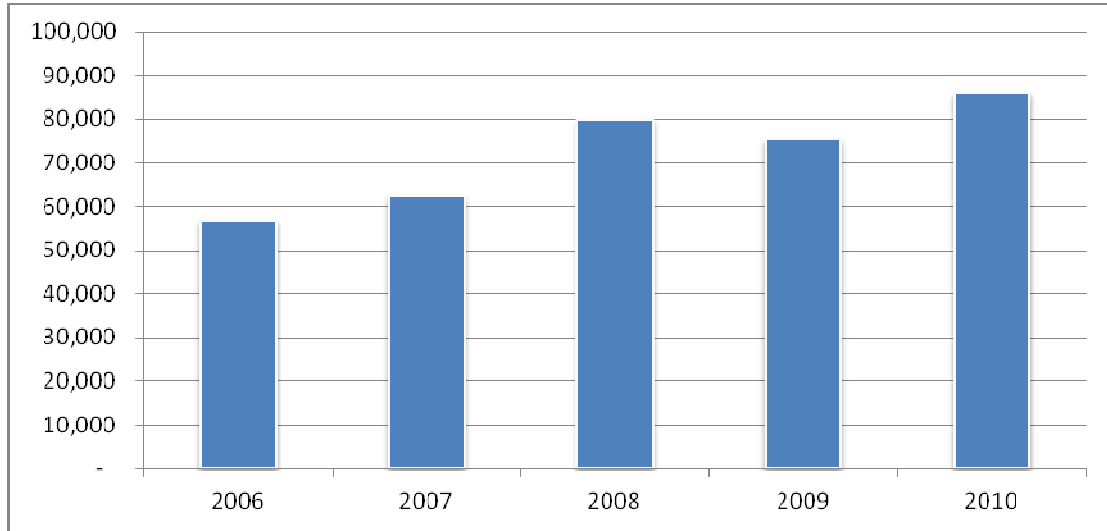
Source: KPMG 2011

**Figure 2: Average coverage of CSR dimensions in 210 annual reports of largest SOEs in China (2006-2010)**



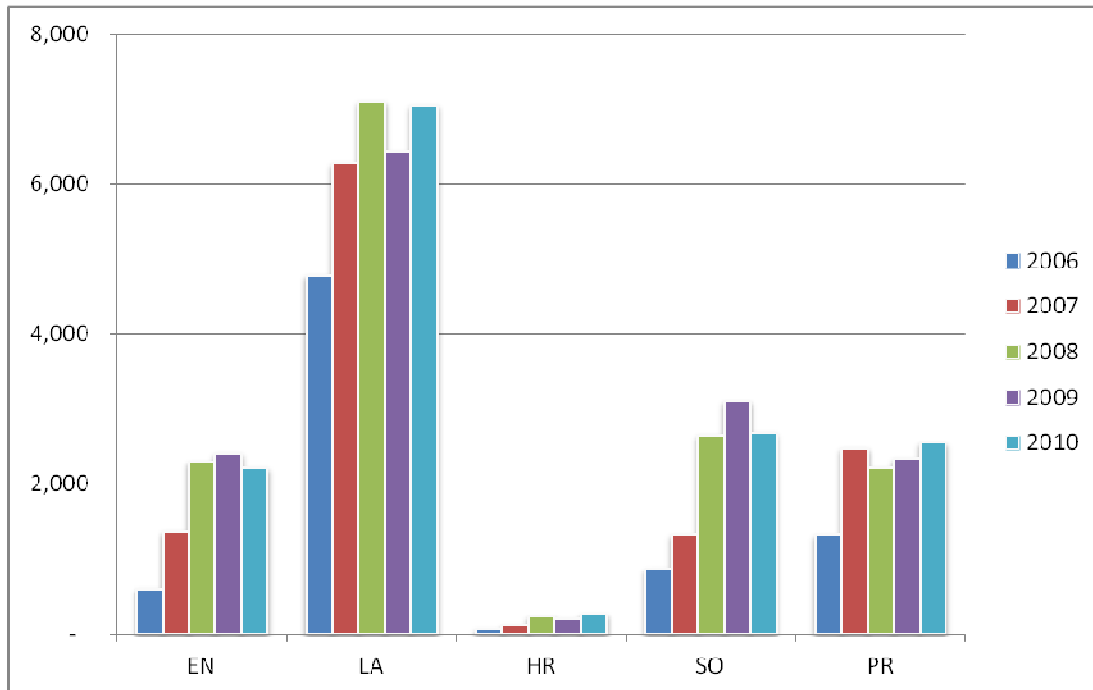
Remark: This column chart is composed based on the statistics in Appendix II.

**Figure 3: Number of CSR key words disclosed in 210 annual reports of largest SOEs in China (2006-2010)**



*Remark: This column chart is composed based on the statistics in Appendix III.*

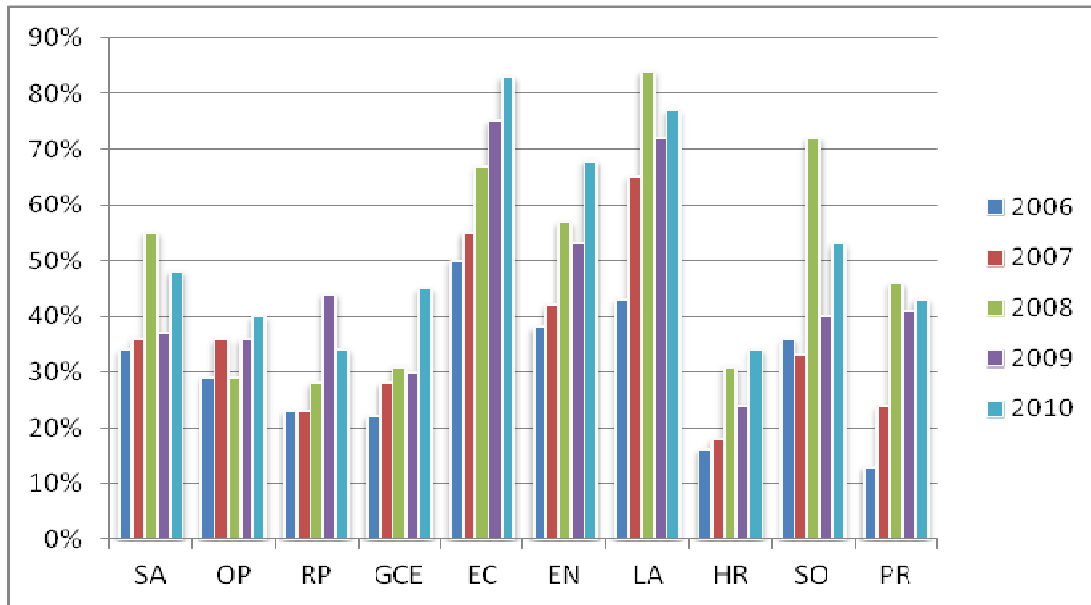
**Figure 4: Number of CSR key words disclosed in 210 annual reports of largest SOEs in China (2006-2010)**



*Remark: This column chart is composed based on the statistics in Appendix III.*

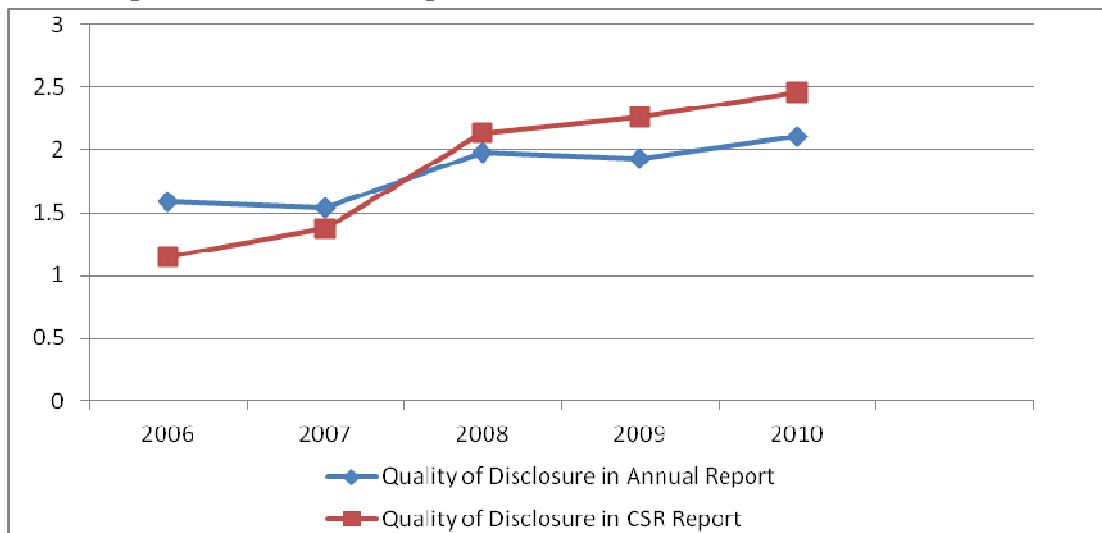


**Figure 5: Average coverage of CSR dimensions in 117 social reports of largest SOEs in China (2006-2010)**



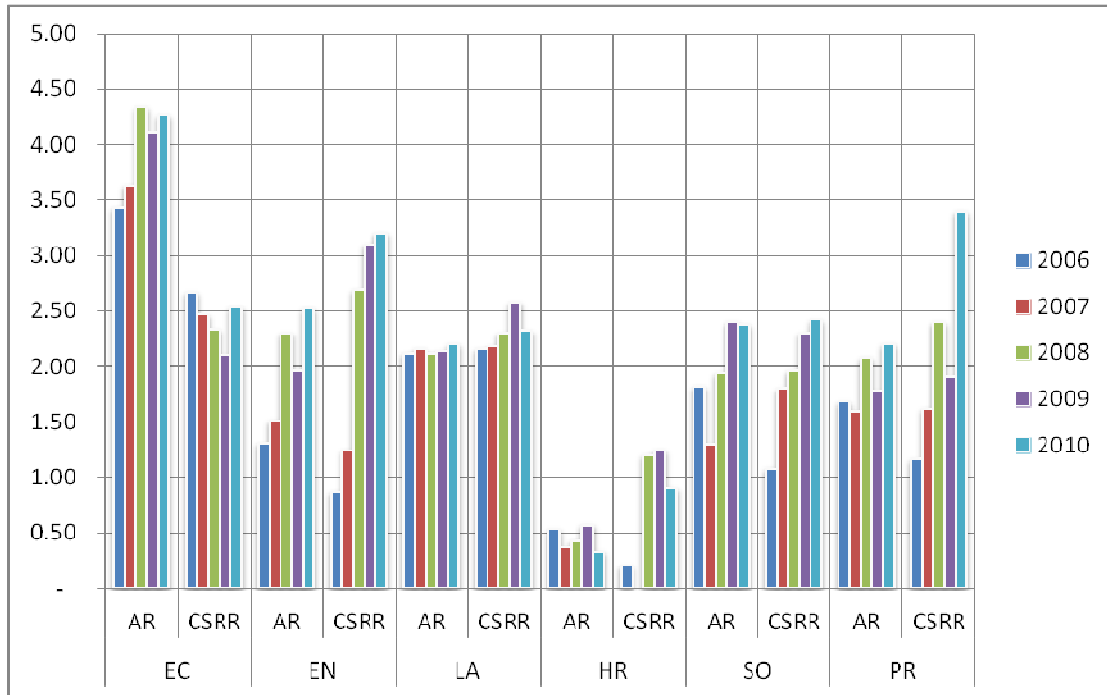
*Remark: This column chart is composed based on the statistics in Appendix II.*

**Figure 6: Overall quality of CSR disclosure in the largest SOEs in China from 210 annual reports and 117 social reports (2006-2010)**



*Remark: This column chart is composed based on the statistics in Appendix III.*

**Figure 7: Average quality of CSR disclosure in the largest SOEs in China from 210 annual reports and 117 social reports (2006-2010)**

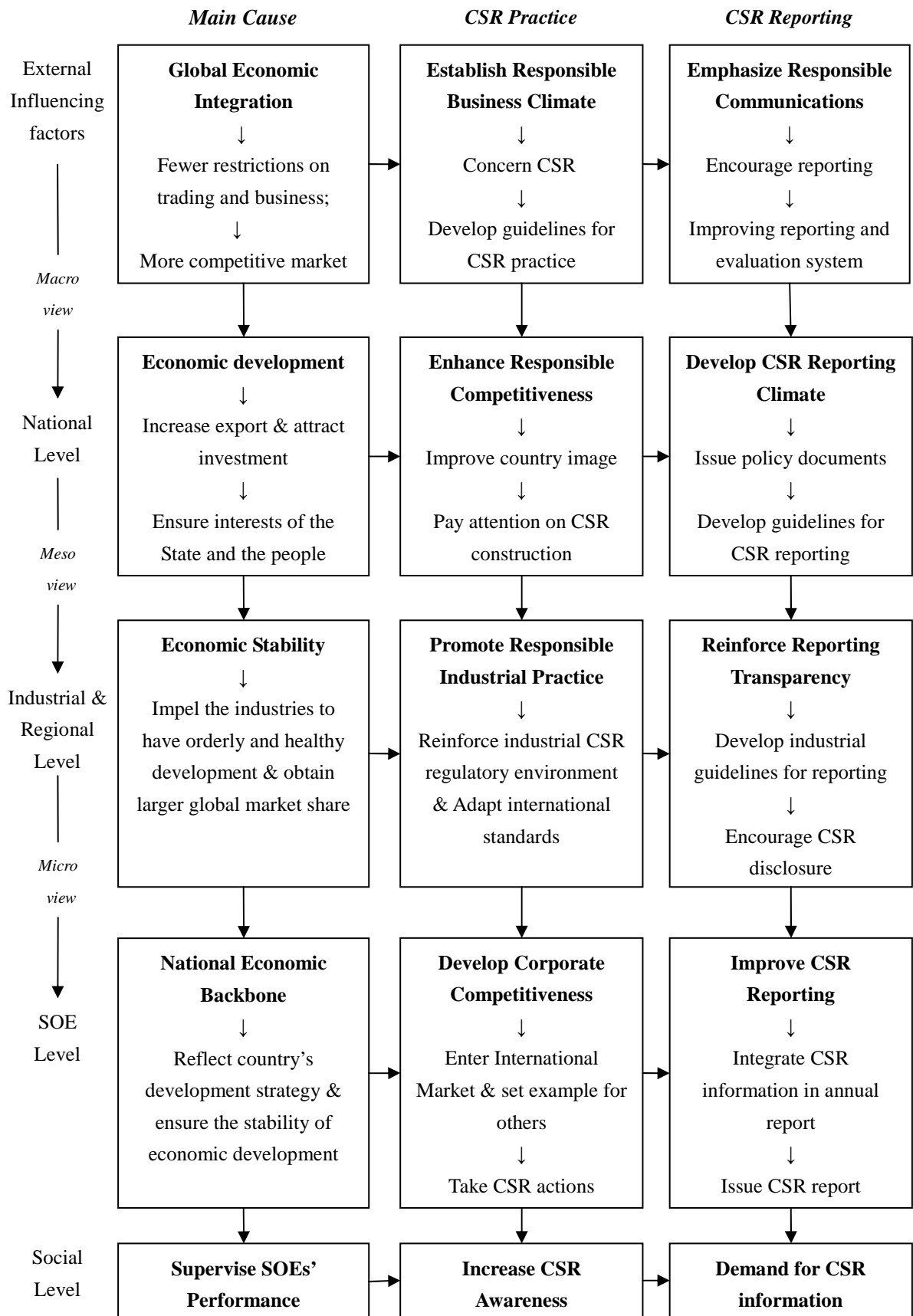


AR denotes annual report;

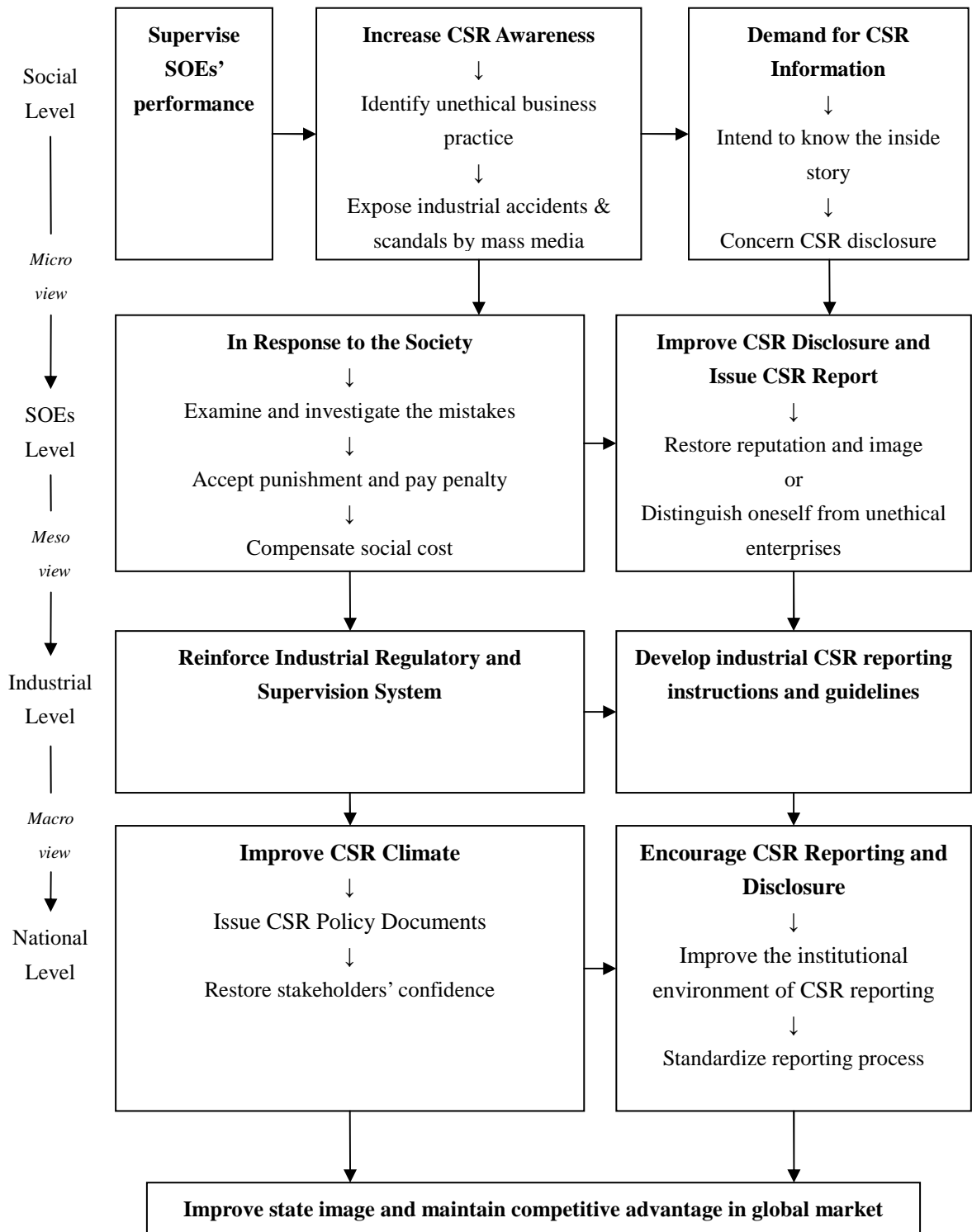
CSRR denotes social reports

**Remark:** This column chart is composed based on the statistics in Appendix III.

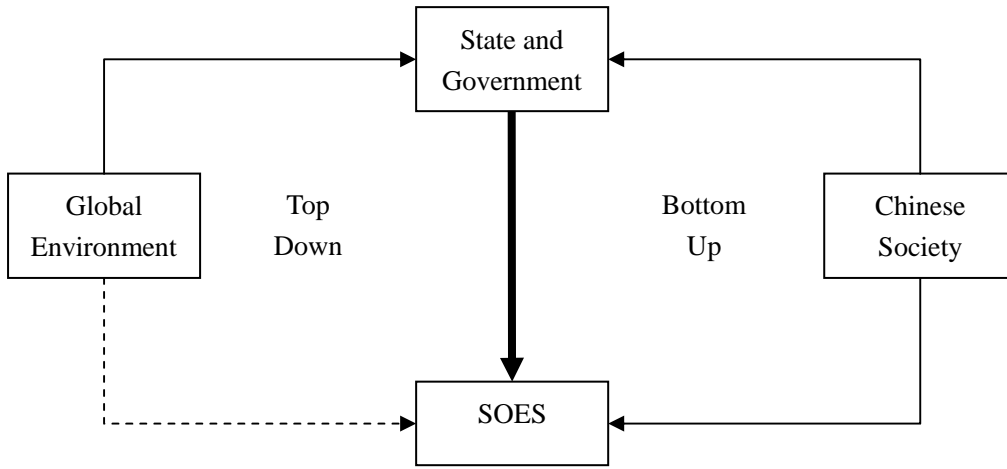
**Figure 8: Multilayered CSR reporting framework of SOEs**  
**Part I Top- down Model:**



**Figure 8: Multilayered CSR reporting framework of SOEs (Continued)**  
**Part II Bottom-up Model:**



*Figure 9: CSR reporting drivers of SOEs in China*



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**Table 1: Distribution of SOEs, annual reports and social reports selected**

Industry Category	Industry Name	Number of SOEs selected (Note 1)	Number of Annual Reports (2006-2010)	Number of Stand Alone CSR Reports and Sustainability Reports (Note 2)					
				2006	2007	2008	2009	2010	Total
A	Agriculture, forestry, livestock farming and fishery	4	15	0	0	0	0	0	0
B	Mining	5	15	1	2	4	3	3	13
C-1	Manufacturing (light)	3	15	1	1	2	2	2	8
C-2	Manufacturing (heavy)	3	15	0	0	3	2	3	8
D	Electric power, gas, water production and supply	3	15	1	1	2	3	3	10
E	Construction	6	15	0	0	2	3	3	8
F	Transport and storage	5	15	0	0	2	3	3	8
G	Information Technology	4	15	1	1	2	3	3	10
H	Wholesale and retail trade	6	15	1	1	2	3	3	10
I	Finance and insurance	4	15	1	2	4	4	4	15
J	Real estate	6	15	0	1	2	3	3	9
K	Social service	4	15	0	0	0	2	2	4
L	Communication and Cultural Industry	5	15	0	0	2	2	3	7
M	Comprehensive	4	15	0	0	2	2	3	7
	<b>Total</b>	<b>62</b>	<b>210</b>	<b>6</b>	<b>9</b>	<b>29</b>	<b>35</b>	<b>38</b>	<b>117</b>
	<b>Percentage of Total</b>	<b>100%</b>	<b>100%</b>	<b>5%</b>	<b>8%</b>	<b>25%</b>	<b>30%</b>	<b>32%</b>	<b>100%</b>

**Note 1:** Top three SOEs ranked by capital size of each industry were selected for each fiscal year. As each year's ranking may be different due to the changes of capital size, a SOE selected in the former year may be off list in the later year and being replaced by a new one. Therefore, the total number of SOEs selected varied among industries.

**Note 2:** Some SOEs issued both CSR reports and sustainability report.

**Table 2: Summary of dimensions and aspects of CSR reporting**

Standard Disclosure	Dimensions	Number of Aspects*
Profile Disclosure	Strategy and Analysis (SA)	20
	Organizational Profile (OP)	26
	Report Parameters (RP)	24
	Governance, commitments and Engagement (GCE)	44
Performance Indicator	Economic (EC)	3
	Environment (EN)	9
	Labor practices and decent work (LA)	5
	Human rights (HR)	7
	Society (SO)	5
	Product responsibility (PR)	5

*\*Profile disclosure is required in the general guideline of GRI-G3 which is mainly consisting of four dimensions listed above. Aspects in each dimension of profile disclosure are counted and summarized by the authors in this study.*

**Table 3: Comparison of coverage in CSR dimensions between SOEs in high-profile and low-profile industries in China (2006-2010)**

CSR Performance Indicator (number of aspects)	Annual Report			Social Reports		
	High -profile SOEs Percentage of total n =75 (number of SOEs)	Low-profile SOEs Percentage of total n =135 (number of SOEs)	Chi-square Test $\chi^2$ - value (p-value)	High -profile SOEs Percentage of total n =50 (number of SOEs)	Low-profile SOEs Percentage of total n =67 (number of SOEs)	Chi-square Test $\chi^2$ - value (p-value)
EC (3)	83% (62)	76% (102)	0.031 (0.9846)	89% (45)	52% (33)	16.752*** (0.0002)
EN (9)	82% (61)	20% (28)	20.123*** (0.0099)	62% (31)	48% (30)	20.237*** (0.0095)
LA (5)	61% (46)	22% (30)	10.809** (0.0288)	76% (38)	67% (42)	17.951*** (0.0013)
HR (7)	12% (9)	1% (2)	9.409 (0.1518)	18% (9)	34% (21)	7.364 (0.2885)
SO (5)	79% (59)	19% (25)	12.582** (0.0135)	52% (26)	12% (8)	10.030** (0.0399)
PR (5)	60% (45)	20% (27)	8.541* (0.0737)	36% (18)	9% (6)	13.189** (0.0104)

**Note:** Significant at: \*0.1, \*\*0.05, \*\*\*0.01 levels, respectively

## Appendix I: Summary of key mandatory and voluntary standards/guidelines on CSR reporting issues in China

No.	Year of Effective	Name of standards/guidelines	Issued by regulatory bodies or other organization	General Description	Mandatory (M) / Voluntary (V)
1	2006	Accounting Standards for Enterprises No. 5 – Biological Assets Accounting Standards for Enterprises No. 9– Employee Compensation Accounting Standards for Enterprises No. 16–Government Subsidies Accounting Standards for Enterprises No. 27–Exploitation of Petroleum and Natural Gas	The China Accounting Standards Committee under the Ministry of Finance	Require to disclose relevant information for recognition and measurement of biological assets related to the agricultural production, employee compensation, government subsidies and exploitation of petroleum and natural gas and so on	M
2	2006	Shenzhen Stock Exchange Social Responsibility Instructions to Listed Companies	Shenzhen Stock Exchange	Encourage the listed companies to establish the social responsibility mechanism and prepare social responsibility reports on a regular basis	V
3	2008	Environmental Information Disclosure Act 2007	The State Environmental Protection Administration of China	Require to disclose environmental information	M
4	2008	Guidelines on Environmental Information Disclosure by Companies Listed on the Shanghai Stock Exchange	Shanghai Stock Exchange	Require to disclose environmental information and CSR strategy in format either part of CSR report or separate report	M
5	2008	Notification on Issuance of the Guideline on Fulfilling Social Responsibility by Central Enterprises	The State-owned Assets Supervision and Administration Commission of the State Council (SASAC)	Require to establish CSR fulfillment mechanisms and CSR information reporting systems for Central State-owned Enterprises (CSOEs)	M
6	2008	Shanghai Municipal Local Standards on Corporate Social Responsibility	Shanghai Municipal Bureau of Quality and Technical Supervision	Encourage enterprises regularly to report to community and employees for addressing four moral and ethical responsibilities like equity issues, environmental issues, integrity issues and harmonious issues	V
7	2008	China Sustainability Reporting Guidelines for Apparel and Textile Enterprises (CSR–GATEs)	China National Textile and Apparel Council (CNTAC)	Provide guidelines with comprehensive and quantifiable indicators to enterprises to publish CSR reports	V

8	2008	Guidelines on Social Responsibility for Industrial Corporations and Federations	11 national industrial federations and associations engaged in iron, steel, oil, chemicals, light industry, textiles, building materials, non-ferrous metals, electric power and mining industries.	Encourage all industrial companies and industrial federations of China to establish a CSR system with CSR reporting and performance indicators	V
9	2008	China Sustainability Reporting Verification Rules and Instructions (CSR-VRAI)	China National Textile and Apparel Council	Provide the measuring principles and verification procedure for the quality of the CSR reports of the textile and apparel enterprises	V
10	2009	Guidelines on Corporate Social Responsibility for Banking Financial Institutions in China	China Banking Industry Association (CBIA).	Advise all banks to produce a CSR report in addressing economic, social and environmental responsibilities and submit to CBA in annually basis	V
11	2009	Requirement for State-Owned Enterprises to issue a CSR report within three years	The State-owned Assets Supervision and Administration Commission of the State Council (SASAC)	SASAC encourage all SOEs to issue CSR report within three years.	V
12	2009	China's Corporate Social Responsibility Reporting Guidelines, Version 1.0	Chinese Academy of Social Sciences (CASS)	Provide instructions and performance indicators to guide different industries to report CSR issues in China	V
13	2010	Management Measures for Insurance Information Disclosure	China Insurance Regulatory Commission	The Measures require that the insurance company should disclose the basic information of the company, the accounting information, risk control situation, insurance products, solvency information and major events, etc.	M
14	2010	Identification Rules on Administrative Responsibility for Violation of Information Disclosure (Draft for comments)	China Securities Regulatory Commission	Enforce the transparency of information disclosure of listed companies.	M
15	2011	China's Corporate Social Responsibility Reporting Guidelines, Version 2.0	Chinese Academy of Social Sciences (CASS)	Provide instructions and performance indicators to guide different industries to report CSR issues in China	V

**Remark:** Number 1-10 are quoted from Noronha et al. (2013)



**Appendix II: Coverage of CSR dimensions for largest SOEs in China from 210 annual reports and 117 social reports (2006-2010)**

CSR Dimensions	Annual Report					Social Report				
	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010
<b>SA</b>	38%	44%	47%	43%	44%	34%	36%	55%	37%	48%
<b>OP</b>	52%	52%	54%	58%	61%	29%	36%	29%	36%	40%
<b>RP</b>	37%	31%	39%	36%	36%	23%	23%	28%	44%	34%
<b>GCE</b>	23%	25%	25%	29%	24%	22%	28%	31%	30%	45%
<b>EC</b>	64%	66%	86%	82%	93%	50%	55%	67%	75%	83%
<b>EN</b>	17%	19%	27%	29%	30%	38%	42%	57%	53%	68%
<b>LA</b>	29%	37%	43%	45%	46%	43%	65%	84%	72%	77%
<b>HR</b>	3%	5%	6%	6%	6%	16%	18%	31%	24%	34%
<b>SO</b>	12%	14%	19%	18%	19%	36%	33%	72%	40%	53%
<b>PR</b>	16%	16%	27%	27%	28%	13%	24%	46%	41%	43%

**Note:** “1” is coded in the field of a CSR aspect if relevant information is disclosed in the selected report and “0” is coded for non-disclosure. Coverage= average number of aspects covered in the report / total number of aspects required by GRI-G3.

### Appendix III: Statistics of content analysis results

Indicators	Aspects	Annual Report					Annual Report					Social Report				
		No. of Words					Quality Nature of Information Disclosed (average score)					Quality Nature of Information Disclosed (average score)				
		2006	2007	2008	2009	2010	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010
EC	Economic performance	45,231	47,678	62,157	59,256	67,292	4.8	4.6	5.0	5.0	5.0	3.8	3.9	4.1	3.4	4.5
	Market presence	403	718	536	512	598	3.4	3.7	4.7	4.2	4.9	2.4	1.9	1.6	1.7	1.4
	Indirect economic impacts	3,597	2,290	2,547	1,008	3,423	2.1	2.6	3.3	3.1	2.9	1.8	1.6	1.3	1.2	1.7
<b>Average</b>							<b>3.43</b>	<b>3.63</b>	<b>4.33</b>	<b>4.10</b>	<b>4.27</b>	<b>2.67</b>	<b>2.47</b>	<b>2.33</b>	<b>2.10</b>	<b>2.53</b>
<b>Subtotal</b>		<b>49,231</b>	<b>50,686</b>	<b>65,240</b>	<b>60,776</b>	<b>71,313</b>	<b>10.3</b>	<b>10.9</b>	<b>13.0</b>	<b>12.3</b>	<b>12.8</b>	<b>8.0</b>	<b>7.4</b>	<b>7.0</b>	<b>6.3</b>	<b>7.6</b>
EN	Materials	116	124	364	235	345	1.2	1.6	3.8	3.4	3.7	1.3	2.8	3.8	3.7	4.2
	Energy	112	288	423	312	234	2.4	2.8	2.6	2.8	2.6	-	1.2	3.4	4.2	3.5
	Water	123	456	513	751	643	1.6	2.6	3.1	3.7	3.4	2.6	-	3.6	3.3	3.7
	Biodiversity	156	87	146	196	282	1.4	1.6	2.6	2.2	2.8	-	-	1.6	1.3	1.2
	Emissions, effluents and waste	31	56	215	264	124	1.8	2.6	4.0	4.3	4.2	-	-	4.1	4.2	4.1
	Products and services	58	345	618	652	578	1.2	1.2	1.6	1.2	1.4	2.6	3.7	3.5	3.6	3.3
	Compliance	7	6	13	-	2	1.2	1.2	1.8	-	1.6	-	-	1.4	2.8	3.0
	Transport						-	-	-	-	-	-				

		-	-	-	-	-							2.4	1.2	3.0	2.4
	Overall	2	-	5	-	2	1.0	-	1.2	-	3.0	1.3	1.1	1.6	1.8	3.4
<b>Average</b>							<b>1.31</b>	<b>1.51</b>	<b>2.30</b>	<b>1.96</b>	<b>2.52</b>	<b>0.87</b>	<b>1.24</b>	<b>2.69</b>	<b>3.10</b>	<b>3.20</b>
<b>Subtotal</b>		<b>605</b>	<b>1,362</b>	<b>2,297</b>	<b>2,410</b>	<b>2,210</b>	<b>11.8</b>	<b>13.6</b>	<b>20.7</b>	<b>17.6</b>	<b>22.7</b>	<b>7.8</b>	<b>11.2</b>	<b>24.2</b>	<b>27.9</b>	<b>28.8</b>
<b>LA</b>	Employment	2,228	2,475	2,443	2,156	2,778	3.6	3.2	3.3	3.2	3.6	4.1	3.3	4.1	3.8	3.6
	Labor/management relations	-	-	-	-	-	-	-	-	-	-	3.0	1.6	-	1.7	1.2
	Occupational health and safety	2,109	3,171	3,547	3,672	3,216	3.4	3.4	3.7	3.7	3.4	-	3.6	4.1	3.6	3.6
	Training and education	401	518	995	465	843	2.3	2.8	2.4	2.2	2.6	2.2	2.4	2.3	2.6	2.2
	Diversity and equal opportunity	43	110	115	138	216	1.3	1.4	1.2	1.6	1.4	1.5	-	1.0	1.2	1.0
<b>Average</b>							<b>2.12</b>	<b>2.16</b>	<b>2.12</b>	<b>2.14</b>	<b>2.20</b>	<b>2.16</b>	<b>2.18</b>	<b>2.30</b>	<b>2.58</b>	<b>2.32</b>
<b>Subtotal</b>		<b>4,781</b>	<b>6,274</b>	<b>7,100</b>	<b>6,431</b>	<b>7,053</b>	<b>10.6</b>	<b>10.8</b>	<b>10.6</b>	<b>10.7</b>	<b>11.0</b>	<b>10.8</b>	<b>10.9</b>	<b>11.5</b>	<b>12.9</b>	<b>11.6</b>
<b>HR</b>	Investment and procurement practices	2	-	2	1	-	1.5	-	1.0	1.0	-	-	-	1.6	3.2	1.6
	Non-discrimination	-	-	-	-	-	-	-	-	-	-	-	-	-	2.0	-
	Freedom of association and collective bargaining	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Child labor	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Forced and compulsory labor	40	34	78	63	85	1.0	1.0	1.0	1.2	1.0	-	-	2.6	2.2	1.2

	Security practices	25	79	152	127	176	1.2	1.6	1.0	1.8	1.3	1.4	-	2.6	1.3	2.2	
	Indigenous rights	-	-	-	-	-	-	-	-	-	-	-	-	1.6	-	1.3	
	<b>Average</b>						<b>0.53</b>	<b>0.37</b>	<b>0.43</b>	<b>0.57</b>	<b>0.33</b>	<b>0.20</b>	-	<b>1.20</b>	<b>1.24</b>	<b>0.90</b>	
	<b>Subtotal</b>	<b>67</b>	<b>113</b>	<b>232</b>	<b>191</b>	<b>261</b>	<b>3.7</b>	<b>2.6</b>	<b>3.0</b>	<b>4.0</b>	<b>2.3</b>	<b>1.4</b>	-	<b>8.4</b>	<b>8.7</b>	<b>6.3</b>	
<b>SO</b>	Community	10	386	345	659	547	1.2	1.6	1.5	1.2	1.3	2.4	2.2	2.8	3.4	2.4	
	Corruption	2	-	6	1	1	4.5	-	3.2	4.0	4.0	-	-	-	-	-	
	Public policy	590	639	832	791	636	2.3	2.2	3.8	3.4	3.6	1.2	3.4	2.8	3.5	3.8	
	Anti-competitive behavior	-	6	-	3	2	-	1.3	-	2.0	1.8	-	-	-	-	1.2	
	Compliance	266	291	1,471	1,645	1,498	1.1	1.4	1.2	1.4	1.2	1.8	3.4	4.2	4.6	4.7	
	<b>Average</b>						<b>1.82</b>	<b>1.30</b>	<b>1.94</b>	<b>2.40</b>	<b>2.38</b>	<b>1.08</b>	<b>1.80</b>	<b>1.96</b>	<b>2.30</b>	<b>2.42</b>	
	<b>Subtotal</b>	<b>868</b>	<b>1,322</b>	<b>2,654</b>	<b>3,099</b>	<b>2,684</b>	<b>9.1</b>	<b>6.5</b>	<b>9.7</b>	<b>12.0</b>	<b>11.9</b>	<b>5.4</b>	<b>9.0</b>	<b>9.8</b>	<b>11.5</b>	<b>12.1</b>	
<b>PR</b>	Customer health and safety	194	487	520	587	429	2.0	1.4	3.2	2.8	3.3	1.2	3.6	4.1	4.3	4.6	
	Product and service labeling	446	788	829	725	1,067	2.4	2.6	2.4	2.1	2.8	2.0	1.2	3.4	1.6	3.8	
	Marketing communications	412	235	297	354	128	2.6	2.8	3.1	2.4	3.5	-	-	1.2	-	3.2	
	Customer privacy	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2.0
	Compliance	268	965	568	673	924	1.4	1.2	1.7	1.6	1.4	2.6	3.3	3.3	3.6	3.4	
	<b>Average</b>						<b>1.68</b>	<b>1.60</b>	<b>2.08</b>	<b>1.78</b>	<b>2.20</b>	<b>1.16</b>	<b>1.62</b>	<b>2.40</b>	<b>1.90</b>	<b>3.40</b>	

<b>Subtotal</b>	<b>1,320</b>	<b>2,475</b>	<b>2,214</b>	<b>2,339</b>	<b>2,548</b>	<b>8.4</b>	<b>8.0</b>	<b>10.4</b>	<b>8.9</b>	<b>11.0</b>	<b>5.8</b>	<b>8.1</b>	<b>12.0</b>	<b>9.5</b>	<b>17.0</b>
<b>Total</b>	<b>56,872</b>	<b>62,232</b>	<b>79,737</b>	<b>75,246</b>	<b>86,069</b>	<b>53.9</b>	<b>52.4</b>	<b>67.4</b>	<b>65.5</b>	<b>71.7</b>	<b>39.2</b>	<b>46.6</b>	<b>72.9</b>	<b>76.8</b>	<b>83.4</b>
				<b>Average score</b>		<b>1.59</b>	<b>1.54</b>	<b>1.98</b>	<b>1.93</b>	<b>2.11</b>	<b>1.15</b>	<b>1.37</b>	<b>2.14</b>	<b>2.26</b>	<b>2.45</b>

#### Appendix IV: Disclosure of bad news and industrial accidents

Industry Category	Industry Name	Bad News and Industrial Accidents Reported		Mass Media Exposure
		Annual Report (2006-2010)	Social Report (2006-2010)	
A	Agriculture, forestry, livestock farming and fishery	3	0	>6
B	Mining	18	23	>63
C-1	Manufacturing (light)	9	7	>12
C-2	Manufacturing (heavy)	7	16	>23
D	Electric power, gas, water production and supply	1	3	>4
E	Construction	2	1	>1
F	Transport and storage	0	1	>2
G	Information Technology	1	0	>1
H	Wholesale and retail trade	0	2	>4
I	Finance and insurance	1	2	>2
J	Real estate	2	3	>6
K	Social service	0	0	>7
L	Communication and Cultural Industry	0	0	>2
M	Comprehensive	1	0	>3
	<b>Total</b>	<b>49</b>	<b>58</b>	<b>132</b>

## **Appendix V: List of abbreviations**

BRIC: Brazil, Russia, India and China;  
CASS: Chinese Academy of Social Sciences;  
CBIA: China Banking Industry Association;  
CBRC: China Banking Regulatory Commission;  
CCP: Chinese Communist Party;  
CFIE: China Federation of Industrial Economics;  
CNTAC: China National Textile and Apparel Council;  
CSR: corporate social responsibility;  
EC: economic;  
EN: environment;  
GCE: government, commitments and engagement;  
GF500: Global Fortune 500 Companies  
GRI: global reporting initiative;  
G250: the largest 250 global companies;  
HR: human rights;  
IAC: inter-coder agreement coefficient;  
IC: intellectual capital;  
LA: labor practices and decent work;  
OP: organizational profile;  
PET: political economy theory;  
PR: product responsibility;  
RP: report parameters;  
SA: strategy and analysis;  
SO: society;  
SOE: State-owned enterprise