

Harmonious Society and Corporate Social Responsibility: Shaping the Factors That Drive Environment-Related CSR

Geoffrey (Kok Heng) See

Semester-abroad at Tsinghua University, Beijing, China

Abstract: China faces environmental problems emerging from decades of rapid environmental growth coupled with the lack of corporate responsibility in this area. China's Harmonious Society policy, introduced in 2006, provides a useful framework for promoting Corporate Social Responsibility (CSR) in the area of environmental protection. However, there is a need to better define the roles for corporations under Harmonious Society to make corporations truly responsible. This paper explores the isomorphic and economic pressures on firms to adopt corporate social responsibility (CSR) using a model that explains inter-country and inter-company variations in general levels of CSR activity. The model is based on a meta-analysis of comparative literature on CSR development to develop a framework that divides causes of CSR in a country into environmental constraints and discretionary responses. Understanding what drives the development of CSR allows us to understand what measures the Chinese government can take to influence the level of CSR. My paper further argues that in order to raise the level of CSR on environmental issues in China, Harmonious Society has to shape both environmental constraints and discretionary responses to be truly effective.

Keywords: Corporation social responsibility; environmental constraints

The Harmonious CSR Revolution

In 2006, a *China Daily* article declared that environmental damages cost China 10 percent of its GDP. While experts disagree on the exact costs of environmental degradation in China, there is consensus that these costs are large and have important repercussions for living standards, healthcare, and sustainable economic growth in China. Ensuring that corporations behave in a socially responsible manner in this area is one way of reducing these costs.

The Harmonious Society policy provides a framework for raising the level of corporate social responsibility (CSR) in China in the environmental area. The Harmonious Society policy, as discussed in this paper, refers to the policy outlined in detail at the 6th Plenum of the 16th Central Committee of the Communist Party of China. President Hu Jintao described the outcome broadly as achieving "democracy, the rule of law, equity, justice, sincerity, amity and vitality." This policy is understood in practical and conceptual terms to mean a renewed focus on addressing social and environmental challenges with a reduced priority for economic growth where it conflicts with these aims. The 6th Plenum has released details on specific objectives, although this concept can be seen as a work-in-progress that is slowly being defined according to the first principles laid down by President Hu.

The 6th Plenum lists the following disharmonious features that the new policy aims to tackle:

- An imbalance in the social and economic development between provinces and between

rural-urban areas

- Population and environmental problems are worsening
- Deficiencies in employment, social safety nets, income distribution, education, medical care, housing, occupational safety, and public order
- A system of public management needs improvement
- Democracy and the rule of law are not adequately institutionalized
- The capabilities and work styles of some leaders do not meet the requirements of the new situation and tasks
- Corruption in some areas is still a major problem

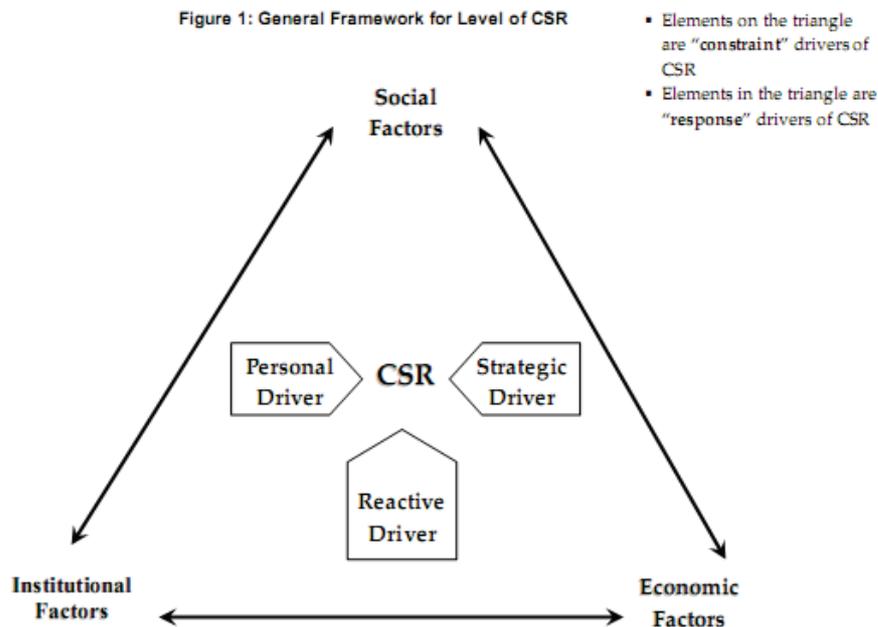
The purposes of CSR strike some observers as being similar to the harmonious elements sought by the Chinese leadership. If a national policy of such overwhelming priority can be used as the underlying framework promoting corporate citizenship, China could use those established concepts to tackle its existing socio-environmental problems. There exists the potential for the unfamiliar concept of CSR to become familiar in China through the lens of the Harmonious Society policy. Such a change in mindset can be significant in helping China cope with the environmental damage from its industrial output.

However, for the Harmonious Society policy to be an effective framework for CSR to take root in China, it needs to directly affect the underlying mechanism driving the development of environmental CSR. By understanding what this mechanism is, we can raise the level of CSR in China by strengthening this mechanism through Harmonious Society guidelines. The next section develops a model explaining the development of CSR in any country, which will be the basis for suggesting changes to existing guidelines to promote environmental CSR.

The Constraint-Response Model of CSR Development

Level of CSR Determined by “Environmental Constraints” and Firm-Specific “Discretionary Responses”

The model I use in understanding the origins of CSR divides drivers of CSR into an “environmental constraint” and “discretionary response” side. The “constraint” side explains the social, economic, and institutional drivers of CSR. The “response” side explains why individual companies facing the same public pressures for CSR might respond with different levels of CSR. Figure 1 describes the complete set of factors I use in my framework. Understanding this framework and application to China will allow us to determine the mechanisms through which the Harmonious Society policy can affect CSR in China and help us suggest complementary policies that can raise the level of CSR in the area of environmental protection in China.



The Environmental Constraints Driving CSR Adoption

The outer elements of the triangle in Figure 1 represent the “constraint” side of CSR. There are two 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 & Powell, 1983). Three forms of isomorphic pressures exist. Coercive isomorphism occurs when organizations seek to attain legitimacy in the eyes of external stakeholders by 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.

Companies also engage in CSR also based on the benefits they can extract from such behavior. Under this argument, constraints drive 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). 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 efforts by the company, and (c) limits downside risks associated with violating societal norms.

The extents to which these benefits or isomorphic pressures exist are, in turn, a function of the environment in which these corporations operate. Environmental constraints include social factors, institutional 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 define society’s demand for CSR. Institutional factors include both informal and formal institutions, legislation, and enforcement

mechanisms. These 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).

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 CSR brings in justifying expropriations of shareholder property and public attitudes toward the role that businesses should play in providing public goods.

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, and 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 organized pressures exerted by the media, self-regulating industry bodies, and NGOs. Gaps in institutional structures can also result in greater demand for CSR.

Economic Factors

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, p. 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.

Response Drivers of CSR Adoption

The “response” 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 constraint-related factors at the macro-level (i.e. 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 environmental constraints can have vastly different levels of CSR.

Personal Driver

Personal drivers include the attitude, interests, and beliefs 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. 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.

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 ten 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 the resources they control. Under imperfect information and facing human biases, top managers could also perceive the benefits of CSR very differently, regardless of underlying realities.

Reactive Driver

Reactive drivers include the adoption of CSR activities by companies under public pressure to head off criticism. 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 are not seeking opportunities to create "shared value." Instead, engaging in CSR activities is used as a reaction to deflect or reduce public pressures.

How Can Harmonious Society Boost Environmental CSR?

This constraint and response framework of CSR explains how CSR is generated. Using this framework helps us understand which drivers and factors, if changed, will increase the level of environment-related CSR in China.

How Can Harmonious Society Raise the Level of Chinese CSR?

Policy-making provides the government with tools that mainly influence the institutional factor and the response drivers of CSR. Hence, our analysis will focus exclusively on the policies the government should include under Harmonious Society policy guidelines to promote more responsible corporate behavior towards the environment. Table 4 summarizes the current status on various institutional factors and which changes would lead to an increase in the level of CSR.

Table 4. *Institutional Factors in China*

Institutional Factor	Current Situation	What Can Be Done
NGOs	Registration of non-governmental organizations (NGOs) is difficult and requires a government sponsor	Allow easier registration of NGOs Encourage NGO input into policy-making Provide NGO access to media on?
Social & Environmental Impact Reporting	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	Mandatory disclosure of EIA findings Allow public input into process Introduce Social Impact Assessment Law
Domestic Business Associations	China Business Council for Sustainable Development (the local arm of the World Business Council for Sustainable Development) exists, but a majority of members are subsidiaries of western multinational corporations 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	Provide government support and encourage associations that emphasize self-regulation, CSR engagement, and sharing of CSR best practices as key items in agenda
Global Business Associations	168 businesses and business associations in China are listed under Global Compact Some Chinese companies belong to industry-specific associations	Government sponsorship and encouragement of membership in related associations

NGOs

NGOs monitor corporate behavior and advocates for change through direct action (e.g. organizing boycotts) by exposing corporate failings to the media or lobbying the government. A more active NGO sector increases the incentive for companies to engage in CSR to allay the concerns of NGO critics (Frankental, 2001).

Regulations were imposed to govern the formation of NGOs in the late 1980s. These include the Regulations on the Registration and Management of Social Organizations, the Regulations on the 12 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 is 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 to overcome such problems.

While regulations have not prevented NGOs from taking root in China, they are left 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 prevents them from raising issues that need to be addressed. Furthermore, since these NGOs are not recognized, they cannot be consulted by the government on policy-making. NGOs cannot act as effective checks and balances under such a situation. Given that the interests of the local government and industry are often aligned, NGOs are needed to monitor the environmental effects of companies as an independent monitoring body.

Social and Environmental Impact Reporting

China has much 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 to control pollution. In 2003, it passed a new law requiring 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 who often face intense pressures to generate economic growth, which leads to a 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.

Domestic Business Associations

The presence of domestic business associations that self-regulate also promotes CSR (Fox & Prescott, 2004, p. 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 in the UK helped spread CSR practices.

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. However, there are promising signs that domestic business associations are increasingly self-regulating and disseminating best practices in CSR. Concrete steps that would increase the level of CSR concerning the environment would be for industry-wide business associations to launch codes of conduct that would be the basis of environmental self-regulation above and beyond the requirements imposed by the government.

Global Business Associations

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. 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. Government sponsorship or incentives for companies, especially state-owned firms, to become engaged in such global organizations will induce a higher level of CSR.

Response 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 response factors. Because of the state's ownership of SOEs, such firms have their response factors directly derived from government policy directions. The government intervenes directly as a major shareholder of SOEs to determine the response considerations these companies and, thus, promotes CSR in these companies not as an institutional factor but as a direct agent. However, the role of state ownership is not something traditionally emphasized in comparative CSR literature.

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. Harmonious Society policy can be used to drive the development of environment-related CSR among SOEs first. Given the prominent role SOEs play in China's economy, their behavior would have an isomorphic effect on larger private companies, which seek to emulate leading SOEs. Trends in this area allow one to be optimistic. China Mobile became the first Chinese firm to issue a complete CSR report in 2007. Of the big four banks of China, the Industrial and Commercial Bank of China and the China Construction Bank both published CSR reports in 2007.

More broadly, the government can intervene to shape the response drivers of corporations in the broader private sector, resulting in a higher level of CSR. By emphasizing the importance of a cleaner environment, the government can shape the social perception of key decision makers in a firm, leading them to pursue environmentally friendly business policies. Even if one takes a cynical view of corporate executives, signaling the government's commitment to a clean environment through a combination of laws in this area and official announcements regarding policy developments in this area could lead to corporate executives pursuing more responsible actions on the basis of detecting commercial opportunities in this area.

Conclusion

By looking at the underlying mechanism for CSR development, I derive a list of action items that the government should include under the Harmonious Society policy that can effectively raise the level of corporate responsibility towards the environment. Through a stronger appreciation of the drivers of CSR

and contextualizing them within China, this paper identifies specific actions that will have greater effectiveness in promoting more responsibility corporate behavior in China.

Notes:

1. I used CEO here as a generic representation of any set of key decision makers in a company.
2. 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.
3. Frankental notes that NGO challenges, such as Greenpeace’s actions against Shell over Brent Spar, contributed to CSR involvement by the company.
4. The UN Global Compact is a framework for businesses to align their operations and strategies with ten universally accepted principles in the areas of human rights, environment, and corruption. The WBCSD works to bring business leadership to issues of sustainable development.

References

- Cuesta, G. M., & Valor, M. C. (2004). Fostering corporate social responsibility through public initiative: From the EU to the Spanish Case. *Journal of Business Ethics*, 55, 273-293.
- Delury, J. (2008). “Harmonious” in China. *Policy Review*, April and May.
- Di, M., Paul, J., & Walter, W. P. (1983). The iron cage revisited: Institutional isomorphism and collective rationality in organization fields. *American Sociological Review*, 48(2), 147-160.
- Doh, J. P., & Guay, T. R. (2006). Corporate social responsibility, public policy, and NGO activism in Europe and the United States: An institutional-stakeholder perspective. *Journal of Management Studies*, 47-73.
- Dunfee, T. W. (2008). Stakeholder theory – managing corporate social responsibility in a multiple actor context. *The Oxford Handbook of Corporate Social Responsibility*, 346-362. Oxford, UK: Oxford University Press.
- Frankental, P. (2001). Corporate social responsibility - A PR invention? *Corporate Communications*. 6(1), 18.
- Fox, T., & Prescott, D. (2004, March). *Exploring the role of development cooperation agencies in corporate responsibility*. Presented on development cooperation and corporate social responsibility, Stockholm.
- Jarvis, M. (2006). *China's First SRI Fund*.
http://psdblog.worldbank.org/psdblog/2006/07/chinas_first_sr.html
- Liu, P. (2005). *Scholar explores harmonious society concept*. Retrieved from
http://www.chinadaily.com.cn/english/doc/2005-03/08/content_422680.htm
- Liu, Z. (2006). Institution and inequality: The Hukou system in China. *Journal of Comparative Economics*, 33, 133–157.
- Maignan, I. (2001). Consumers' perception of corporate social responsibilities: A cross-cultural comparison. *Journal of Business Ethics*, 30, 57- 72.
- Moon, J., & Chapple, W. (2005, Dec). Corporate social responsibility (CSR) in Asia: A seven-country study of CSR W. *Business and Society*, 44(4).

- Pearson, M. M. (1994, Jan.). The Janus face of business associations in China: Socialist corporatism in foreign enterprises. *The Australian Journal of Chinese Affairs*, 31, 25-46.
- Pinney, C. C. (2008). *Why China will define the future of corporate citizenship*. Retrieved from <http://www.bcccc.net/index.cfm/fuseaction/Page.viewPage/pageId/1905>
- Proffitt, W.T., & Spicer, A. (2006). Shaping the shareholder activism agenda: institutional investors and global social issues. *Strategic Organization*, 4, 165.
- Ruth, V. A., Cynthia, A. W., John, M. C., & Deborah E. R. (2006). Corporate governance and social responsibility: A comparative analysis of the UK and the US. *Corporate Governance: An International Review*, 14(3), 147-158.
- See, Geoffrey, K.H. (2008). Harmonious society and CSR: Is there a link? *Journal of Business Ethics*. (Published Online).
- Spicer, D. T., & Bailey, W. J. (2004). Does national context matter in ethical decision making? An empirical test of integrative social contracts theory. *Academy of Management Journal*, 47, 610-620.
- Stroke, V. M., Gao, J., & Pratima, B. (2006). Being good while being bad: Social responsibility and the international diversification of US Firms. *Journal of International Business Studies*, 37(6), 850-862.
- Tanner, M. S. (2004). China rethinks unrest. *The Washington Quarterly*, 27(3), Summer, 137-156.
- Tao, Z. (2007). Interview with Ze Tao, head of Non-profit consulting firm in China NPP, July 26.
- Vogel, D. (2005). *The market for virtue: The potential and limits of corporate social responsibility*. Washington D.C.: Brookings Institute Press.
- Waldman, D.A., Sully de Luque, M., Washburn, N., & House, R.J. (2006). Cultural and leadership predictors of corporate social responsibility values of top management: A GLOBE study of 15 countries. *Journal of International Business Studies*, 37, 823-837.
- Wang, Y., Morgan, R.K., & Cashmore, M. (2003). Environmental impact assessment of projects in the People's Republic of China: New law, old problems. *Environmental Impact Assessment Review*, 23, 543-579.
- Williams, C. A., & Aguilera, R. V. (2006). *Corporate social responsibility in a comparative perspective*. Retrieved from <http://www.business.uiuc.edu/aguilera/pdf/Williams%20Aguilera%20OUPfinal%20dec%20>
- Woo, W. T. (2006). Debate 2: China's economy. Reframing China policy: The Carnegie Debates – Arguing for the Motion. U.S. Capitol, Washington D.C.
- Xinhua News Agency. (2005). *Building harmonious society important task for CPC: President Hu*. Retrieved from http://english.people.com.cn/200502/20/eng20050220_174036.html
- Zhang, Y. (2003). *China's emerging civil society*. Retrieved from http://www.brookings.edu/papers/2003/08china_ye.aspx
- Zhou, Y. (2000). Watchdogs on Party leashes? Contexts and implications of investigative journalism in post-Deng China. *Journalism Studies*, 1(4), 577 – 597.