

**A Longitudinal Study of Corporate Social Disclosure in Chinese
Listed Companies' Annual Reports: 2002 to 2006**

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partial fulfilment of the degree of Master of Business

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Attestation of Authorship

I hereby declare that this submission is my own work and that, to the best of my knowledge and belief, it contains no material previously published or written by another person nor material which to a substantial extent has been accepted for the qualification of any other degree or diploma of a university or other institution of higher learning, except where due acknowledgements and references are made in the acknowledgements and reference section.

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Abstract

A growing necessity to include a social dimension in reporting practices raises important questions about the nature of Corporate Social Responsibility (CSR) and its impact on corporate and individual behaviour and performance. CSR reporting acts a tool for the delivery of the internal CSR operation information to outside parties and to lower the level of information asymmetry. Currently CSR reporting practice development is globally imbalanced. The KMPG 2005 CSR survey shows that CSR reporting development in OECD countries is much more advanced than in developing countries. In Asia, evidence shows that many developing countries are moving in a positive direction with reference to corporate social reporting.

The objective of this study is to produce a longitudinal analysis of the disclosure levels of CSR reporting in Chinese listed companies which are listed in the Top 100 in 2002 and 2006. The longitudinal perspective would enable an evaluation as to whether Chinese listed companies have included more CSR information in their annual reports (the annual report is commonly regarded as the most influential information tool between management and outside parties). The Global Reporting Initiative (GRI), the most popular CSR guideline, is employed and provides instruction for the content categorisation. The reporting content, reporting via industries, reporting location, presentation forms and shareholding evidence are tested.

The findings of this study show that over the stated time period there was a rapid increase in CSR reporting by Chinese listed companies in terms of reporting themes and of quantity. Chinese reporting trend is similar to the global increasing trend. However, the level of CSR reporting in China is lower than the world average and this suggests that more government guidelines and corporate social evolvments are preferable. There is much room for improvement, especially in terms of the standards evolved and in reporting quantity. From the industry reporting point of view, it remains important to encourage companies to learn from advanced reporting companies and provide both more comprehensive and more comparable disclosure of information in addition to the minimum regulatory requirements.

Chapter One Introduction

There has been growing awareness for companies to engage in corporate social responsibility (CSR) activities (Carroll, 1999). Consequently, CSR reporting acts as effective tool bridging the gap of a growing public perception of the company's social role and company's conduct (Campbell, 2000). Along with the significant change of the business environment and an increasing critique on merely monetary measures of corporate performance with little regard to externalities, CSR reporting is advocated by more and more companies (Gray et al., 1987). Accounting, as one perspective of CSR reporting, reflects the information needs of society and different social and economic environments which impose information requirements (Burchell et al., 1980). Generally speaking, countries at different social and economic development stages present different concerns and priorities (Mueller, 1968) and consequently the CSR reporting practices in terms of CSR disclosure differ between countries (Hope, 2003).

CSR reporting practice development is imbalanced globally. The KPMG 2005 CSR survey shows that CSR reporting in developed countries is popular while most companies engage in CSR reporting at high levels and the reporting development in OECD countries is much more advanced than in developing countries. In Asia, evidence shows that many developing countries are moving in a positive direction in corporate social reporting (KPMG, 2005). At present Chinese CSR development cannot match with the pace of its rapid economic development (Shan, 2007).

This study examines the literature on global and China CSR and extends this using an empirical investigation into CSR disclosure in Chinese listed companies in 2002 and 2006. The samples include 67 sample companies which were in the Top listed 100 in both years. Longitudinal content analysis is employed to show trends as well as absolute CSR levels of China companies in their annual reports over time. The annual report is commonly regarded as the most influential information medium tool between company management and outside parties. In order to categorize the disclosing content with high persuasive power, GRI, which complies with the United Nation's programme, was employed as the content guideline. The content analysis

consists of two parts (1) Strategy and Profile and (2) Management Approach. Because of subjective information on Strategy and Profile, this study emphasises a Management Approach. According to GRI, Management Approach analysis includes Economic, Environmental, Employment, Human rights, Society Involvement and Product Responsibility issues. Content count, including word, sentence and page counts, is a popular method for CSR analysis (Gray et al., 1995). This is the first time content analysis has been used to measure CSR in terms of the number of words in Chinese companies' annual reports. Other objectives are analysis of was presentation form (monetary, numerical and declarative), location and CSR standards. This research is also a pioneer study to look into the relationship between shareholding character and CSR performance in China. In order to provide more convincing results, additional statistical tests (regression and two-way T-test) are conducted.

This study expands the pool of knowledge about the CSR of companies in China and summarises the previous CSR studies using the counting method. CSR reporting has been generally concentrated on companies in developed countries such as the European Union, UK and Australia (Purushothaman et al., 2000). The last comparison of CSR count was conducted by Hackston & Milne (1996) for some developed countries and Ratanajongkol et al. (2006) adds Thailand finding based on this. These two comparisons are based on old data (all before 1992 except the 2001 Thailand figures) and compare the percentage of disclosing sample companies over sample populations. This study reviews contemporary research on CSR in both developed countries and Asian countries and compares the absolute counts from European and Asian contemporary studies. It will assist regulators and investors by identifying the categories of information and more suggestions are provided.

In the Chapter Two Literature Review, the CSR concept and historical review are introduced, followed by the theoretical framework of CSR. The global CSR awareness and the Chinese CSR development provide a general picture of CSR's application. Based on the CSR review, the CSR reporting section provides a more theoretical foundation on the legitimacy of CSR reporting. The current reporting status in China and the rest of the world is introduced. Accordingly, a detailed literature review for each research question is presented before each research question is introduced.

Following the Literature Review Chapter, Chapter Three Research Design describes this study's research approach, and the application of content analysis and statistical tests. This chapter also introduces content analysis processing, including population and samples, data sources, the coding scheme, statistical test explanations, and some issues related to data collection.

Chapter Four analyses the data, the summary and the characteristic of under each research question. At beginning of this chapter, the statistical data related to length (total pages, lines and words) of all sample annual reports in 2002 and 2006 is introduced. Data analysis on CSR disclosure in annual report provides evidence on the relationship of CSR reporting content themes and companies' characteristics.

Chapter Five discusses the results from the previous chapter in terms of each research question, with a comparison of previous findings. The implications of the findings and limitations of this study are discussed. Finally, this chapter also indicates that because of the complexity of CSR reporting within different economic and cultural circumstances, further studies are necessary.

Chapter Two Literature Review

2.1 Introduction

Increasing public interest on the role of businesses in society is driven by greater sensitivity and awareness of environmental and ethical matters (Carroll, 1999). Issues like environmental pollution, workers' rights and working safety are highlighted in the media. The public expectation of civic duty means going beyond adding value to the bottom line. CSR expresses a contemporary desire to see companies in positions of power acting responsibly.

Various studies provide strong support for the adoption of CSR, for example, a positive relationship between an organisation's success and its collective thinking about environmental sustainability, economic profitability, and social performance (e.g. Hart & Milstein, 2003); giving greater visibility to CSR rankings (e.g. *Business Ethics Magazine's* 100 Best Corporate Citizens¹); incorporating emerging global standards of expected responsible conduct into their management systems (e.g. the U.N.'s Global Compact, OECD Guidelines, Equator Principles); and introducing accountable standards (e.g. SA 8000 and AA 1000) into their production processes and global supply chains (Waddock, et al., 2002). Nowadays, 64% of the biggest international corporates and 41% of big national companies produced CSR reports in 2005, compared with 52% and 23% respectively in 2002 (KMPG, 2005).

CSR is a concept with a strong growing trend around the globe and within China (*China Daily*, 13 May 2005). Even with the expectation of contributing value to the shareholders as the main role of companies, CSR is generally regarded as the companies' attempt to balance its economic, environmental and social affairs and integrate them in the interests of shareholders and other stakeholders (Marrewijk, 2003).

A number of leading academics, (for example Jensen & Meckling, 1976; Watts & Zimmerman, 1978; Smith & Warner, 1979), agree that organisations are motivated by

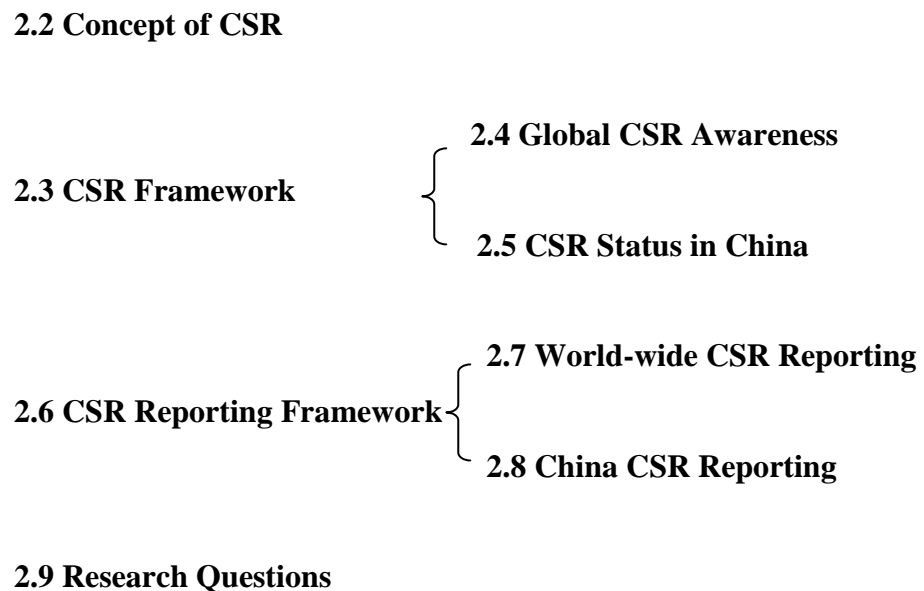
¹ Ranking available at http://www.business-ethics.com/BE100_all

economics-based benefits to provide credible information about their operations and performance to certain parties outside of the organisation. If the data is not supplied the cost of bridging the information asymmetric² would be higher as such knowledge helps to mitigate potential conflicts of interest.

Information disclosure studies assume that, even in an efficient capital market, managers have to balance the costs and the benefits of information disclosure when communicating their company's superior performance to principals and other interested parties. This balance is necessary for contracting, political or corporate governance reasons (Healy & Palepu, 2001). Hence, the manner, quality and quantity of disclosing CSR information in a sample of Chinese top 100 listed companies are among aims of this study to understand the relationship between CSR reporting and companies' characteristics.

This chapter provides the background on CSR concept and status, CSR reporting framework and research questions. The structure of Chapter Two is illustrated as Figure 2.1.

Figure 2.1 Illustration of Chapter Two's Structure



² Information asymmetry is “a situation where some individuals have access to particular information that is not available to others” (Deegan & Samkin, 2006, p80). It increases the possibility for managers to undertake actions to deliver the information to principals at the owners' expense.

Firstly definitions of CSR are explored, followed by economic CSR theories and the psychological perspectives of CSR. The current world-wide CSR awareness and CSR development in China is then enlarged.

The scope of literature review is narrowed down to CSR reporting. The theoretical framework of CSR reporting, including stakeholder theory and legitimacy theory, is then developed. The CSR world-wide reporting and CSR reporting in China are also introduced.

This section also generates the research questions. Finally, a summary of this chapter are presented in the last section.

2.2 Conceptual basis of Corporate Social Responsibility (CSR)

The concept of CSR frequently overlaps with similar terms, including corporate sustainability, corporate sustainable development, corporate responsibility, and corporate citizenship (Strategis, 2007). CSR brings changes in general social development, but is much more marked in corporate business culture. In some senses, CSR acts as a counterculture psychology against the long established idea of private and free enterprise and managerial discretion can be exercised easily (Keim, 1978). A clear CSR definition is helpful to provide basic CSR concept in this study.

2.2.1 What is CSR?

CSR is an evolving term that does not have a standard definition or a fully recognised set of specific criteria, as stated in KPMG's 2005 report (KPMG, 2005, p3), "the terminology of CSR used in relation to corporate responsibility and for reporting on CR performance is varied." Clarkson (1995) points out that a fundamental problem has been that no definitions of corporate social performance (CSP), corporate social responsibility (CSR₁), or corporate social responsiveness (CSR₂) exist, so that no universal framework or model for the systematic analysis of corporate performance and behavior relating to these important concepts has been agreed upon.

The first public document relevant to CSR was the Brundtland Report (1987), also known as “Our Common Future”. In this report, an international group of politicians, civil servants and experts on the environment and development argued for economic development with less cost on depleting natural resources or harming the environment. This report provided a key statement on sustainable development by defining it as:

Development that meets the needs of the present without compromising the ability of future generations to meet their own needs. (WCED, 1987, p.43)

In 1992 at the Johannesburg World Summit on Sustainable Development, the sustainable mission broadened to emphasise social justice and the fight against poverty as key principles while the mission was interpreted as:

How can we meet the needs of today without diminishing the capacity of future generations to meet theirs? Sustainable development implies a broad view of human welfare, a long term perspective about the consequences of today’s activities, and global co-operation to reach viable solutions (OECD, 2005).

The common themes of these statements are the fair distributions of wealth and health between countries, people and further benefits for environments and ecosystems.

KPMG (2005) adopted a similar definition of corporate responsibility in its report from the World Business Council for Sustainable Development (WBCSD, 2004) while CSR is viewed as:

The commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life.

In 2007, the World Bank took the ethical view that CSR should include consideration of all relevant stakeholders, by saying that:

Corporate social responsibility is the commitment of businesses to behave ethically and to contribute to sustainable economic development by working with all relevant stakeholders to improve their lives in ways that are good for business, the sustainable development agenda, and society at large. (World Bank webpage, 2007)

The UK government also tried to define the concept of CSR which is expressed on the government website:

The [UK] Government sees CSR as the business contribution to our sustainable development goals. Essentially it is about how business takes account of its economic, social and environmental impacts in the way it operates – maximising the benefits and minimising the downsides. Specifically, we [the UK government] see CSR as the voluntary actions that business can take, over and above compliance with minimum legal requirements, to address both its own competitive interests and the interests of wider society.” (United Kingdom Government, 2007)

Generally speaking, CSR reveals that ways in which businesses engage with or involve relevant stakeholders and other parties related to their value chains, for example, shareholders, employees, customers, suppliers, governments, non-governmental organisations (NGOs), international organisations, and others. Based on various social, environmental and economic laws, CSR is often understood as a set of proactive commitments that extend beyond merely compliance with laws (Strategis, 2007). This study adopts the definition from KPMG since its 2005 report provides comprehensive review on CSR reporting world-wide.

2.2.2 Importance of CSR

Firstly CSR information helps bridging the gap between information need and information acquisition. Downs (1957) identifies four different types of information demands which call for CSR involvements. For instance, manufacturers want data that helps with their business and production decisions. Consumers want price and quality information when purchasing. People also require information simply for entertainment and diversion. People also need information to help make informed political choices, for instance like voting. CSR contains elements of all four information demands. Managers would like to know the effect on their companies if they adopt CSR. Consumers may read about green products. Individual investors may search out information with for “ethical” investment purposes. The public also have an interest in stories with human interest, drama, scandal, violence, corruption, or protest, all of which have CSR content. Finally, because CSR often revolves around policy issues such as pollution or sustainable development, it also contains elements of public affairs coverage. This implies that CSR information would not only have an effect on the corporate-level, but also on individual level (for example shareholders and voters).

Companies engage in CSR activities based with various CSR motivations. In general, the practical actions of companies described by Hamilton (2003) are to maximize profits, reduce negative externalities, or encourage positive externalities which will increase social welfare. If CSR actions are a response to pressure from government and NGOs, companies would be likely to increase their investment in social responsibility issues. These pressures could force companies to adopt policies that are economically inefficient or generate income redistribution at very high costs. Such political popular efforts can “leave society worse off as measured by the standard of efficiency and understanding the motivations and impacts of CSR is one of the many challenges who chose to write about this aspect of company performance.” (Hamilton, 2003, p.4)

In order to carry out their social responsibilities, corporations are generally expected to integrate economic, environmental and social imperatives and address CSR commitments and activities on aspects of a firm’s policies and practices. The typical key elements are related to health and safety, the environment, human rights, corporate governance, community, consumer, business ethics and stakeholder rights.

Companies are moving towards comprehensive decision-making matters which involve more related parties’ interests the latter can influence companies’ valuations and even punish companies in some extreme cases. Hence, “corporations can be motivated to change their corporate behaviour in response to the business case which a CSR approach potentially promises” (Strategis, 2007). Companies which implement CSR programmes may obtain business benefits from these activities (United Nations Economic Commission, 2004), for example:

- Enhanced enterprise image and reputation;
- Increased sales and customer loyalty for the products and services of the company;
- Increased productivity and quality, reduced complexity and costs;
- Better control and management of risks;
- An increased ability to attract and retain employees; and
- Higher motivation of employees.

In summary, the various definitions of CSR reflect the broad view of social responsibility upon various parties and from different perspectives in our society. In general, CSR looks at the ways businesses take all related parties into consideration,

including issues from internal (corporate governance, safety) to external (environment, community). In order to understand more about the CSR interaction between companies and stakeholders, a number of theoretical frameworks have been developed since 1980.

2.3 Theoretical framework of the CSR incentive

In the development of CSR, the broader view takes more elements into accounts. The new concept of CSR, which consolidates shareholder benefits and other stakeholder social benefits is now widely accepted and theories of CSR vary by discipline while they provide different angles to investigate the motivations of corporate social engagement (Hamilton, 2003). In this chapter, the traditional view of shareholder-benefit will be reviewed briefly, followed by the newer CSR economic perspective which incorporates stakeholder, institutional theory and strategic leadership theories. The psychological perspective demonstrates different views on CSR using instrumental, relational and moral models.

Traditionally, academics emphasise shareholder satisfaction as the primary goal of firms (Friedman, 1962). Friedman's Nobel Prize statement argues that the notion of social responsibility is objectionable and the only universal responsibility is to generate profit for shareholders. Carroll (1979) agrees that "the first and foremost social responsibility of business is economic in nature ... and ... all other business roles are predicated on this fundamental assumption". Preston and Post (1975, 1981) extend the notion of separation of responsibilities by arguing that business and society are two interpenetrating systems and society should take most of responsibilities. Otherwise, social responsibility would be operationally dysfunctional (Ackerman & Bauer, 1976).

The proponents of CSR depart from the supporters of economic responsibility, claiming to have a more comprehensive view of the social responsibility undertaken by firms. Freeman (1984), developed Barnard's (1938) "inducement contribution" framework to provide the "stakeholder" view. Freeman's stakeholder theory asserts that managers must satisfy a variety of constituents (for example, workers, customers,

suppliers and local community organisations) who can influence firm outcomes. According to this view, managers should look beyond shareholders' interests and take more care of other stakeholders. The theory implies that stakeholders or relevant parties will provide more support for companies when the latter engage in more CSR activities. Otherwise, these groups might withdraw their interests of supporting CSR, even further support of the firm. Stakeholder theory was expanded by Donaldson & Preston (1995) who stressed the moral and ethical dimensions of CSR in such activities.

Another perspective known as stewardship theory is based on the idea that there is a moral imperative for managers to "do the right thing" with relatively less concern about the firm's financial performance (Donaldson & Davis, 1991).

Institutional theory and classical economic theory have also been applied to CSR, notably in Jones (1995) who asserts that companies involved in routine transactions with stakeholders are motivated by being known as honest, trustworthy, and ethical. Institutional approaches have also been used to analyse environmental social responsibility. For instance, Jennings & Zandbergen (1995) examine the role of institutions in shaping the consensus within a firm for the establishment of an "ecologically sustainable" organisation.

Strategic leadership theory is applied to CSR by Waldman et al. (2006), who argue that certain aspects of transformational leadership will be positively correlated with the firms engaging in CSR activities and when CSR activities are employed strategically. The extent to which firms engage in strategic CSR can be examined through the lens of the "resource-based-view-of-the-firm" (RBV), as introduced by Wernerfelt (1984) and Barney et al. (2001). This theory assumes that firms use heterogeneous resources which are imperfectly mobile across organisations. It maintains that the rare and inimitable resources and capabilities can be regarded as a kind of source of sustainable competitive advantage.

The psychological perspective also explains why CSR is important. Aguilera et al. (2005) posits three main motives for firms engaging in CSR, summarised as: instrumental, relational and moral. These three motives are concerned with self-

interest, with relationships among group members and with ethical standards and moral principles respectively. Cropanzano et al. (2001) presents a similar needs model which is based on a review of decades of research and theory on employee perceptions of justice.

Instrumental models (for example Tyler, 1987) assume that people are motivated by the expected maximum favourable outcome. Consequently, any disclosures (like CSR) which serve the psychological controlling need of individuals to forecast an organisation's actions more accurately would be supported (Sullivan, 1989).

Relational models show that justice information helps to improve the quality of relationship management between employees, shareholder and other parties in terms of the psychological need for belongingness in each party's mind (Rupp & Cropanzano, 2002). In this sense, good behaviour is generally seen as a mechanism for bringing people together and avoids relationship deterioration.

A third major psychological need is for a meaningful existence because individuals share a basic understanding of human dignity and morals (Folger, 1998). Corporate behaviour drives public attention to the organisation because of public underlying interest, and this interest then re-influences the companies themselves.

In summary, progress is being made in the theoretical framework of CSR. The findings range from empirical results to psychological reflections. Because the term CSR is similar to many other related concepts and covers various issues, there is no universal theory explaining all the applications of CSR (Clarkson, 1995).

2.4 Global CSR awareness

The development of CSR in commercial practice is moving positively and dramatically as it becomes a common view that companies should focus not only on profit maximisation for shareholders but also keep a balance of social benefits when the corporation is facing increasing internal and external pressures to fulfil broader

social goals (Freeman et al. 2001; Logsdon & Woods, 2002; Davies, 2003). Stead & Stead (2004) states:

We contend that the economy can survive in the long run only by bringing economic activity into balance with the needs of society and the limits of nature strategic managers are among the people who can most influence the shift in the economic paradigm (p.50).

Similarly, Post et al. (2002) also states that:

The commitment to creating organisational wealth in a manner that is economically, technologically, and socially sustainable challenges conventional thinking about the nature and sources of corporate success (p.241).

More attention is being paid to the condition of the Earth, our only home, as people realise the importance of harmonious relations between human and human; human and nature. In the Millennium Ecosystem Assessment Synthesis Report (2005), a comprehensive analysis organised by the UN and academics, it is asserted that nearly 26,000 plant species, about 1,100 animals and more than 1,200 birds, around 700 freshwater fish, and hundreds of reptiles and amphibians are under threat of extinction. More recently, the UN's Intergovernmental Panel on Climate Change (IPCC, 2007) held in Bangkok, indicates that “a global assessment of data since 1970 has shown it is likely that anthropogenic warming has had a discernible influence on many physical and biological systems” (p.2). Further, World wealth is unevenly distributed, 78% being classified as poor, 11% ‘middle income’ and 11% rich. More than half the world’s citizens have never used modern telecommunications, only 7% use a personal computer and just 4% have access to the internet (Millennium Ecosystem Assessment Synthesis Report 2005). This report concludes that the net gain in human well-being is incurring a growing cost in terms of degradation of many ecosystem services, the exacerbation of poverty for some groups of people and increased risks of nonlinear changes. There will be substantial diminishment of benefits that future generations can obtain from ecosystems if problems are not effectively addressed. The degradation of ecosystem services could grow significantly worse during the first half of this century.

In financial markets, attention has been paid to the financial frauds which hurt the public interest, for example the Enron, WorldCom and the Exxon Mobil cases

(Carson, 2003). In a most serious corruption case, the Iberian America scandal, there was outright robbery of the banking deposits of millions of Argentineans in the process of privatising almost all public assets in Argentina (Ariceta, 2004). These cases are in the same category as the Enron and WorldCom frauds: the bankruptcies significantly hurt public financial health (Carson, 2003). In the US, the Nike and Exxon Mobil cases demonstrate the power of public interest groups against international companies' "laissez-faire" attitude toward labour employed in their "sweatshop" factories (Shamir, 2004; DeTiene & Lewis, 2005). These scandals support a need for the reconsideration of the underlying contract between the public and corporations.

Recent trends are turning in a positive direction. Kofi Annan, the former UN secretary general, states that:

Far from being a burden, sustainable development is an exceptional opportunity: economically, to build markets and create jobs; socially, to bring people in from the margins; and politically, to reduce tensions over resources that could lead violence and to give every man and woman a voice, and a chance, in deciding their own future" (Annan, 2002).

Although international recognition of CSR arose in the 1980s, the basic concept of CSR became part of a business ethics code from the 1950s and has matured with the development of business and society. With the shift of a company's value recognition from the traditional economic benefits approach, CSR has moved from the margin of business operations to a more central position and a more comprehensive view (Gond & Herbarrech, 2006).

According to the European Council's Green Paper (ECGP, 2001), CSR is "essentially a concept whereby companies decide voluntarily to contribute to a better society and cleaner environment" (p5). Further, looking at the definition of CSR this Green Paper states (2001):

Most definitions of corporate social responsibility describe it as a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis (p.8).

The linkage between business practices and the natural/social environment is only now being properly recognised and the "sustainable development paradigm" has

emerged. The positive progress on social issues has gone beyond territorial boundaries in terms of the standards and legal treaties at a supranational level, for example by the European Union and United Nations. External pressure from consumers and investors is influencing the ways managers control businesses. Some investors and investment fund managers have begun to take account of a corporation's CSR policy in making investment decisions (Sparkes & Cowton, 2004). Managers are aware that increasing numbers of consumers prefer to purchase products from, and invest in shares of those companies caring for the environment and which maintain good citizenship behaviour (Quazi & O'Brien, 2000). Also, a rapidly growing proportion of large investment institutions and corporate management are adopting the corporate social investment philosophy as they meet more shareholder pressure (Sparkes & Cowton, 2004). These trends have contributed to the higher expectation on companies to operate in a more sustainable social and environmentally friendly manner.

In general, more and more businesses recognise the urgent need for CSR and the trend is gaining pace. In order to contribute to communities or reduce their contingent costs, more businesses will engage in CSR activity either voluntarily or compulsorily.

2.5 CSR status in China

It has been well known that China was one of the fastest developing countries in the last decade and presumably will be in coming decades. The gross domestic product (GDP) for the 2006 year was 20,940.7 billion Yuan (US\$2,560 billion), an increase of 10.7 percent, which is 0.3 percentage point higher than the previous year (National Bureau of Statistics of China, 2007a). Recent data released by Chinese National Bureau of Statistics show that Chinese GDP would pass that of Germany and China is expected to rank in 3rd position at the end of 2007 (*China Daily*, 31 December 2007). Furthermore, the draft for the 11th 5-year plan (2006 to 2010), approved by the Central Committee of the Chinese Communist Party proposes a further 45% increase in GDP and 20% reduction in energy intensity by 2010 (National Bureau of Statistics of China, 2007b).

However, the development of CSR in China has travelled a bumpy road. The environment, labour and human rights were sacrificed at some level to achieve economic development. WorldWatch, an independent research institute reports that Chinese spectacular economic boom is inflicting a terrible toll on the environment (Bendell, 2005). Aside from environmental issues, the social challenges for companies are those of labour, gender, and medical issues among many others (Bendell, 2005). Accordingly, there is growing interest in the corporate handling of social issues, driven by various parties (including non-government organisations, medias, foreign investors etc.), who observe how companies behave in these areas. In other words, CSR provides an efficient means for transparency to provide information for outsiders' monitoring purposes in China (Bendell, 2005).

Environmental pollution is another serious environmental challenge for China today. For example, many Chinese companies are adopting a strategy where productivity outweighs concerns of high resource efficiency and low recycling rates, which affects sustainable development goals in the long run (Zhang, 2005). Also, the energy consumption for one unit of product in China is 4.3 times that of USA, 7.7 times than Germany and France, and 11.5 times that of Japan (Ma, 2005a). The resource recycle rate is 33% lower than the international average of 40% (Ma, 2005a). The impact on the environment is serious in terms of high volumes of solid and liquid discharge. The level of liquid for one unit of product is four times and the level of one unit of solid discharge is ten times that of developed countries' standard (Ma, 2005a). As commented by the Deputy Minister of the Chinese State Environmental Protection Administration (SEPA), the cost of environmental pollution and the exploitation of natural resources will hinder Chinese economic development (Pan, 2006).

Labour rights are also attracting more attention. Given its unique political system, truly independent trade unions and non-Government organisations are regarded as less powerful than in developed countries and Chinese labor laws appear not to incorporate international standards (Bendell, 2005). Furthermore, according to *China Net*, China Official Gateway to news and information, although the government has made an effort to alleviate the level of unemployment, it is still an issue as the registered unemployment rate has grown annually from 2.3 % in 1991 to 4.3% in 2003 (*China Net*, 20 September 2005).

The imbalance of wealth distribution is attracting more and more attention by the Chinese Government because this phenomenon can cause serious social problems, as commented by Jinhua Li, the Commissioner of the National Audit Office of the People's Republic of China (Li, 2007). His speech in the Chinese official audit newspaper confirms that the "Mathew's effect" exists in China in terms of the gap between the high-income population and the low-income population and is expanding dramatically (Li, 2007). *Xinhua Press*, the Chinese official news media, says that 20 percent of the low-income population holds only 4.7 percent of the total national income, compared to 20 percent of the high-income population account for 50 percent of the total national income (*Xinhua Net*, 20 September 2005).

In China one of the current major challenges is for effective legislation in fighting corruption. A survey conducted by Nankai University showed that 77% of Chinese people believe commercial bribery is part of normal business practice in the country, reported by the *China Youth Daily* (CSR Asia Weekly, 2006). According to a recent OECD report (OECD, 2005), embezzlements and other irregularities accumulated during the last twenty years from the beginning of the economic reforms, is assumed to be between \$US50-84 billion dollars, equivalent to 3% to 5% of the GDP. The need for anti-corruption measures to be enforced in China is urgent because current reform consists of changing the performance of the remaining large state-owned institutions which are controlled and operated by bureaucrats who can profit from their economic status power through corrupt means whereas the previous reform in the state sector consisted of privatisation (Chow, 2006). Furthermore, Chinese Transparency Index 2006 ranked only at 70th in the world, improved from 71st in 2003 (ORCE, 2006). China is also the lowest rank among top 10 GDP countries in this 2006 index (ORCE, 2006). In order to fight corruption, China has signed up to international anti-bribery initiatives, for example, the OECD's Anti-Bribery Convention and Extractive Industries Transparency Initiative (EITI). In 2003, China participated in the UN's Convention against Corruption, but that contract is seen as much weaker than the OECD treaty (ORCE, 2006).

For greater governance, the Fourth Plenary Session of the 16th Central Committee of the Communist Party of China (CPC) stated the proposal of increasing greater

governance capacity by calling for more accountability of members through broader citizen participation, greater separation of government from the management of businesses and the creation of more democratic evaluation systems on 19 September 2004. In January 2005, the CPC released guidelines for a national corruption prevention system which uses a three-pronged approach consisting of ethics education, institutional accountability and civil monitoring. Because of China's unique political and legal system, such anti-corruption efforts are leaving some question marks in researchers' minds (Chow, 2006).

Nowadays, the Chinese government pays more attention to the CSR issues. "Chinese enterprises should increase their understanding and awareness of social responsibility for future success", says Gao Shangquan, the Chairman of the China Enterprise Reform & Development Society, at the 2nd China Enterprise Social Responsibility Summit held in Beijing at 20th Jan 2007 (Gao, 2007). Also the Minister of Commerce of China (MCC) declared that MCC will take CSR as one of the major measurements for promoting the growth of foreign trade oriented company's business during 2006 (Govt, 2006a). The promotion of corporate responsibility is considered an important tool in environmental management along with SEPA's mandatory laws and regulations (Govt, 2006b). This positive attitude from the government should contribute to promoting CSR reporting further in China.

The serious situation in the Chinese ecosystem calls for more efforts to improve social responses and contributions to a harmonious environment. Although CSR is still a new concept for most Chinese companies, they are absorbing CSR ideas attempting to catch up with their international counterparts and learning from them. "International companies have long-established CSR standards and common practices, but it is a new concept and we have kept on improving ourselves [Chinese companies]", said Ma Li, executive vice-president of the Shanghai Pudong Development Bank and keynote speaker at the CEO Roundtable meeting held by *China Daily* (Ma, 2006b).

The Chinese CSR Survey 2006, conducted by China Central TV, Peking University and *Global Entrepreneur Magazine*, shows that many Chinese companies realise the importance of CSR but still have misconceptions in certain industries. For example,

among the 12 industries investigated, service industries including banking and telecommunications were more sensitive to CSR while the manufacturing industries like steel and chemicals were less apparently conscious of the negative impact that their business activities imposed on society and the environment (Shan, 2007). Nevertheless, Chinese corporations are working progressively as they realise that CSR is a key component for their companies' long-term sustainability and innovative plans and actions to improve the environment are essential (Shan, 2007).

In summary, the current trend is that companies are moving in the direction of social responsibility. For the purposes of gaining encouragement and support (for political and strategic considerations), companies like to demonstrate that their business activities are implementing social and environmental measures. The development of CSR is the central solution and it is a useful vehicle which would be capable of delivering inside information for external parties. Corporate social reporting is one mechanism that would increase transparency of economic activities.

2.6 Theoretical framework of CSR reporting

CSR reporting appears important while it acts as a linchpin for efforts to evaluate the results of corporate activities. Such activities will help corporates to broadcast their CSR practices, promote continuous improvements in corporate performance and achieve a better public image. This section aims to provide the theoretical framework of CSR reporting by using a historic development review, followed by investigation of mainstreams of CSR reporting theories. These include economic-based theories and political economic theories. Stakeholder theory and legitimacy theory, as the two most popular entities, will be discussed in detail.

CSR reporting may be regarded as a method of self-presentation and managerial decoration to ensure various stakeholders' satisfaction (e.g. Hooghiemstra, 2000; Patten, 2002). Gray et al. (1996) define CSR reporting as:

The process of communicating the social and environmental effects of organisations' economic actions to particular interest groups within society and to society at large (p.3).

Furthermore, the GRI, the most popular CSR guideline around the world, describes CSR reporting as an organisation's public credit of its economic, environmental and social performance related to its operations, products and service. Under the concept of CSR:

GRI uses the term "substantiality reporting" synonymously with citizenship reporting, social reporting, triple-bottom line reporting and other terms that encompass the economic, environmental, and social aspects of an organisation's performance (Hopkins, 2005, p.225).

Hence, CSR reporting reveals to what extent companies perceive their responsibilities to society. Their aims in CSR reporting are to add more scope on the classical method on reporting company's economic status, which are primarily designed for the needs of shareholders and management, based on economic and monetary measurements (Snider et al., 2003). Golob & Bartlet (2007) have similar view that CSR reporting is a means for organisations to provide information for different stakeholders regarding social and environmental issues.

Traditional accounting reveals only a certain level of a company's awareness of necessary social responsibility while social reporting shows the higher degree to which that responsibility is taken seriously (Antal et al., 2002). The intention is to ascertain and document all the internal, macroeconomic and social tasks imposed upon, attributed to, or voluntarily assumed by the company but captured only indirectly or incompletely, if at all, in conventional business accounts. Traditional accounting and CSR reporting are complementary rather than exclusive when social responsibility consists of various goals such as meeting social needs, forming compatible relationships, ensuring safety and a clean environment, efficient production, pursuit of profit, and thereby contributing to prosperity in society. Some CSR information is reporting in reporting in similar ways to traditional accounting, for example, information about donation, environmental investment and Employee Benefit in sections of reports.

The main role of CSR reporting can be described as the vehicle to deliver information for the public within the scope of a "public-information model" (Grunig & Hunt, 1984). Within this public-information model, the disclosure can help describe "to the public what the organisation has done to be responsible and should explain lapses into

irresponsibility” (p.48). Hooghiemstra (2000) also applies a corporate communication model for organisations, which use CSR reporting as a strategy for legitimisation of their activities. As a consequence, CSR reporting involves extending the accountability of organisations and includes reporting on stakeholder interests, such as the environment, human rights, animal protection, employees’ interests, and ethical standards (Hooghiemstra, 2000).

Since the 1950’s, the development of CSR literature has been erratic. It has passed a through three distinct periods (Wartick & Cochran, 1985; Frederick, 1994; Carroll, 1999). In the first period, studies focused on the necessity that managers should look beyond the scope of traditional economic concerns and consider the ecological and social environment as well (Bowen, 1953). In the second period, the concept evolved further from the philosophical-ethical concept of CSR to the action-oriented managerial concept of corporate social responsiveness with more business and social-oriented scholarship efforts (Frederick, 1994). In the current period, the concept of “corporate social performance” emerged as a synthesis of both CSR and corporate social responsiveness approaches (Clarkson, 1995; Wood, 1991).

In the early development stage to comply with CSR reporting, disclosure was voluntary and companies were not required mandatory social and environmental information. Hence early social and environmental accounting studies found a lack of external monitoring and verification in corporates’ attitude and understanding. Legitimacy theory was called on to construct corporate disclosures, so as to maximise perceptions of legitimacy (Deegan, 2002). Gray (2001, p.13) writes “the quality of attestation to social and environmental reports is woefully poor.” In its most positive light, a “specious gloss” is said to characterize social reporting initiatives in the United States and Europe, where annual report is a strong tool to deliver such information (Owen & Swift, 2001). A parallel literature describes corporate “green-washing,” “blue-washing,” and other forms of disinformation from organisations seeking to repair public reputations and further shape public images (Beder, 1997; Bruno, 1997). CSR reporting can contribute to society from two perspectives. Firstly, CSR may be regarded as an addendum to conventional accounting and research while sharing the same assumptions and preconceptions (Mathews, 1984; Gray et al., 1987). Within this perspective, financial institutions and relevant governing bodies as the

principal users of any CSR reporting would regard CSR reporting as one component of financial statement. The second perspective is broader as it covers social and environmental reporting as the main role of information transmission in the organisation society inter-communication process (e.g. Preston & Post, 1975, 1981). This approach appears to be more consistent with the conventional accounting regime. It presents a challenge for CSR reporting academic researchers and invites criticisms (Puxty, 1986, 1991; Tinker et al., 1991).

In spite of the progress, major problems remain in CSR reporting theory building (Gond & Herrbach, 2006). As Gray et al. (1995, p47) commented: “there has been lack of any agreed theoretical perspective to drive systematic research” for various reasons. The first reason is that CSR reporting is not compulsory in legislation in many countries. Consequently, it is not practised systematically by corporations without universal definition or recognition (Gray, 1995). Secondly, seldom do corporate social performance (CSP) models enable the elaboration of competent search propositions (Gond & Herrbach, 2006). Most research merely investigates several kinds of CSP components and there are no significant findings on the interactions between components. Furthermore, CSR reporting fails to theorise the organisation society relationship explicitly and this leaves the literature the poorer (Gray, 1991; Puxty, 1991; Tinker et al., 1991).

Despite the literature, the CSR reporting framework is not well established and further theories are necessary. Empirical findings prove that some CSR literature does work in some cases. Many different theoretical perspectives have been produced after decades of empirical investigation of CSR reporting practice. Gray et al. (1995) summarises that there are various theories for the cognitive system on CSR reporting, for example, decision-usefulness studies (Benjamin & Stanga, 1977; Chenall & Juchau, 1977; Belkaoui, 1984), economic agency theory (Christenson, 1983; Arrington & Francis, 1989), positive accounting theory (Gray et al., 1995; Deegan, 2002), shareholder theory (Ullmann, 1985; Roberts, 1992), legitimacy theory (Guthrie & Parker, 1989; Pattern, 1992), political economy theory (Benston, 1982).

Gray et al. (1995) categorise classic theoretical perspectives namely decision-usefulness studies, economic-based theories and political economy theories.

The decision-usefulness approach has been proved unsatisfactory. The main problem is that the outcome of this method does not cater for the needs and concerns of financial participants (Booth et al., 1987; Mathews, 1987). Also such literature has theoretical problems with decision-usefulness as it does not support decisions efficiently (Laughlin & Puxty, 1981; Pallot, 1991). Hence, comment has been made that the whole process of information and response of CSR reporting is under-theorised (Gray et al., 1995).

The use of economic-based theories has been criticised for the reason that the focus on self-interest and wealth-maximisation is inappropriate and offensive. But because economic-based theories were mainly applied in accounting research, they contributed little to the development of CSR reporting (Gray et al., 1995).

Political economic theories include more political and social issues to present a more comprehensive picture. The essential point is that such literature looks at the reciprocity caused by political, social and institutional frameworks. In essence, political economy theory, including shareholder theory and legitimacy theory, is efficient in interpreting the empirical findings. The political theory focuses on not merely economic self-interest and wealth-maximisation of individuals or businesses, but also on the political, social and institutional framework within which the economic takes place (Gray et al., 1995).

The corresponding effects of CSR in annual reports with important issues have been detected in several empirical studies (Hogner, 1982; Guthrie & Parker, 1989). In this instance, political economy theories demonstrate better adaptability in the need for explaining why corporations appear to respond to government or public pressure in terms of social information (Guthrie & Parker 1990). Stakeholders would like to assess the corporate disclosures as the response of their demand at some levels. The perception of accounting reports as the agency of social, political and economic information sources would let political economy theory act in this role (Guthrie & Parker, 1990). Using such a perspective, political economic theory can be viewed as the tool for management in achieving organisations' goals and reflecting external stakeholders' expectations by achieving social and environmental disclosures. In particular, "by far the more interesting and insightful theoretical perspectives are

those drawn from social and political theory (most particularly stakeholder theory and legitimacy theory perspectives)” (Gray et al., 1995, p52). These two popular theories are discussed as follow.

2.6.1 Stakeholder Theory

Stakeholder theory asserts (Gray et al., 1995) that:

The corporation’s continued existence requires the support of the stakeholders and their approval must be sought and the activities of the corporation adjusted to gain that approval. The more powerful the stakeholders, the more the company must adapt. Social disclosure is thus seen as part of the dialogue between the company and its stakeholders. (p.53)

Here the definition of “stakeholder” is important to identify the interested parties as such. In the decades of development of the “stakeholder” definition, Friedman (1962) provides a typical interpretation equivalent to “principle shareholder”. Roberts (1992) expands the definition of “stakeholder” to a broader range, including various interested groups and political parties. The broader definition is more popular nowadays, including customers, suppliers, local communities, public media, authorities, non-government-organisations, who have power to influence corporations.

Thus, stakeholder power is determined by the dependence of corporations on the stakeholders. The stakeholder-corporation power relationship may exist via different forms (Deegan, 2000), for instance, distance of limited resources (e.g. finances, labour), access to influential media, ability to legislate against the company, or ability to influence the consumption of the organisation’s product and services (Deegan, 2000). “When stakeholders control resources critical to the organisation, the company is likely to respond in a way that satisfies the demands of the stakeholders” (Ullman, 1985, p.552). Accordingly, organisations would be likely to select the stakeholders who they can get benefit from, and then act in the manner that they can easily maintain the desired relationship (Ullman, 1985).

Therefore, stakeholder theory is generally regarded as the manner that an organisation deals with its stakeholders (Gray et al., 1997). The organisation’s strategies explicate the mode of response of an organisation’s key decision-makers open to social demands. Therefore, stakeholder theory connects the management’s perspective of

the organisation and their goals of strategic substantial success (Gray et al., 1995). “Corporations that adopt an active posture seek to influence their organisation’s relationship with important stakeholders” (Ullman 1985, p.552). The CSR reporting content is accordingly adjusted by management to suit the expectations of stakeholders. It should be noted that only important stakeholders rather than all stakeholders would impose influencing power (Ullman, 1985). In contrast, the corporation with a passive posture is “neither involved in continuous neither monitoring activities [of stakeholders] nor deliberately searching for an optimal stakeholder strategy” (Ullman 1985, p.552). It seems a one-way treatment for managers to deliver the expectation for stakeholders. The lack of stakeholder engagement is likely to result in low levels of social disclosure and low levels of social performance (Ullman 1985).

Despite this, stakeholder theory is a perspective going beyond the merely economic considerations and there is further involvement of non-pure-economic factors between the corporation and its stakeholders. Gray et al. (1997) argue that stakeholder theory is not perfect for the reason that stakeholder theory only focuses on the one-way direction a corporation reacts to its stakeholders. The managers are likely to identify the concerns of stakeholders, decide on the level of attention they will pay to them, and the benefit formulas contained in stakeholders’ interests in the disclosure designing purpose. Hence, stakeholder theory is essentially a “market forces” approach in which resources allocation determines the type and level of voluntary social disclosures at a given time (Gray et al., 1997). In consequence, the stakeholder theory ignores important influences and social elements, such as statute law and regulations which contain requirements for information disclosure (Gray et al., 1997).

2.6.2 Legitimacy Theory

Legitimacy theory has been discussed by numbers of scholars in terms of corporate environmental and social disclosure practices (for example, Tinker & Neimark, 1987; Guthrie & Parker, 1989; Tilt, 1994; Wilmshurst & Frost, 2000; Milne & Patten, 2002 and O’Dwyer, 2002). It is probable that legitimacy theory is the most widely used theory to explain social and environmental disclosures (Campbell et al., 2006).

Organisational legitimacy states that organisations seek to establish congruence between social values and acceptable organisational goals and behaviours. In other words, “legitimacy theory presupposes a relationship of reciprocal understanding between different parties” (Campbell et al., 2003, p.561). Mobus (2005) and Magness (2006) also suggest that legitimacy theory is useful in analysing corporate behaviour because legitimacy is important to organisations in terms of analysing constraints imposed by social norms and values and reactions to such constraints so that a focus for analysing organisational decisions taken with respect to the environment is provided.

Responding to the dynamic changing of sources of institutional power and the needs from outsiders rapidly is one element of essential survival strategy. An organisation must meet the needs of legitimacy required by society’s expectations in implicit and explicit ways (Deegan, 2002). The explicit terms include the social contract such as legal statutes or regulations, whereas the implicit terms are cryptic social expectations and conventions. Legitimacy may be seen as a potential benefit for resource allocation to the organisation while organisational legitimacy can be viewed somehow a mechanics for social communities to deliver their expectations. Meanwhile organisations can form a systematic set of achievement targets and influence communities accordingly (Dowling & Pfeffer, 1975; O’Donovan, 2002).

However the legitimacy gap might appear when a difference exists between the values of the corporation and the values of society. O’Donovan (2002) suggests that a corporation would evaluate its social standards and align these values with the perceived views of society. Alternatively, the corporations may attempt to persuade the existing social members to change their perceptions. In general, organisations must understand the relative power between themselves and social stakeholders and then choose appropriate strategies and disclose relevant favourable information (Neu et al., 1998).

Gray et al. (1995) advocate that stakeholder theory and legitimacy theory should be seen as overlapping theories to present a more comprehensive picture. Both theories are within the framework of political economy theory and investigate the relationship between corporations and society using different angles. Under legitimacy theory,

society and corporate are inter-affected when society can affect the financial and other resources to the firm, and the firm utilises social responsibility disclosure to justify or legitimise conducts to society. Unlike stakeholder theory which focuses on a one-way explanation from stakeholder to corporation, legitimacy theory focuses on the firm's two-way interactions with society. At first glance, legitimacy theory provides more persuasive power.

In summary, the growing necessity to include the social dimension in reporting practices raises important questions about the nature of social responsibility and its impact on corporate and individual behaviour and performance (Gond & Herbarrech, 2006). CSR reporting can be utilised as a mechanism to deliver selected information from corporates to the related parties at large.

2.7 Current CSR reporting around the world

Again, for the purposes of a better corporate image, CSR reporting can be a canvas to present a good picture for shareholders and related parties. The current CSR reporting status provides some background information for this study. This section consists of two parts, namely world-wide CSR reporting and CSR reporting in China.

Institutional investors have long recognised how successful pressure groups are in influencing politics (Campbell, 2006). Since the 1990s, a surge in the growth of capital market-oriented rating institutions worldwide reflects the increasing need of investors to deal with their CSR concerns. Such financial intermediaries include banks, mutual funds, and institutional investors (Scholtens, 2006). Some research has found that corporations behave in socially responsible ways when external organisations and associations adapt normative or cognitive institutions that encourage such manners (Galaskiewicz, 1991). The pioneering index is the Domini Social 400 Index, which was initiated in 1990 in the United States, followed by a dozen or so socially and environmentally oriented stock indices. Nowadays stakeholders pay particular attention to index families such as the Dow Jones Sustainability Index (DJSI), the Financial Times Stock Exchange-Index (FTSE4Good), and the Ethibel Sustainability Index (ESI) (Schäfer, 2005).

At present, there are over 300 international standards and guidelines providing generally accepted reference standards for improving aspects of social and environmental performance and desired legitimacy, consistency and comparability required by business and its stakeholders (Lighterinen & Zadek, 2005). KPMG (2005) reveals that about 70% of social or environmental reports refer to the standards established by the United Nations system, including the Global Compact, ILO and the United Nations Declaration of Human rights, followed by the second biggest reporting standards contributed by the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises (11%) (KPMG, 2005)

CSR reporting is positively related to corporate performance and corporates are paying more attention to such reporting. Verschoor (1998) discovered that among the 500 largest public corporations, more than 100 firms that mentioned their commitment to stakeholder interests and codes of conduct in their annual reports demonstrated superior financial performance to those that did not. It was also stated that the 2,000 companies ranking highest on Covenant's overall social responsibility scale had outperformed the Standard & Poor's 500-stock index from 1988 to 1992. A study by Covenant Investment Management in 1996 on Standard & Poor's 500, found that the annual return for the 100 companies which rated highest was 18.3%, compared to those 100 lowest which got 7.9% (Damon, 2000). Also managerial attention to employee and customer stakeholders is associated with favourable financial performance (Berman et al., 1999). Carroll & Buchholtz (2000) comment on this finding that CSR has brought some changes in business-society relationships and that the stakeholder management approach has been one needed response.

“To think in stakeholder terms increases the complexity of decision-making and it is overly taxing to some managers to determine which stakeholders, (finding) claims take priority in a given situation. Despite its complexity, however, the stakeholder management view is most consistent with the environment that business faces today (Carroll & Buchholtz, 2000, p.86).”

While the concept of social reasonability is being built into management's cognitive system, a KPMG survey report (KPMG, 2005) discovered positive trends. The main findings included following points. Firstly, CSR reporting has been steadily rising

since 1993, with substantial improvement within the period of 2002 to 2005. In 2005, 52 percent of G250³ and 33 percent of N100 companies issued separate CSR reports, increased from 45 percent and 23 percent, respectively in 2002 (KPMG, 2002, 2005). More annual financial reports with CSR information were presented with higher percentages (64 percent for G250 companies and 41 percent for N100 companies). Secondly, the form of CSR reporting has seen a dramatic change from purely environmental reporting to sustainability (including social, environmental and economic issues) among G250 and N100 companies. CSR reporting has become a mainstream of corporate reporting, as 68% of G250 companies and 48% of N100 companies adopted it. Thirdly, 80% of N100 companies publish their separate CSR reports. There has been an increasing trend that more corporates include more social responsibility in their annual reports (KPMG, 2005). The level of asymmetric information regarding internal operations can be mediated by the firm itself or by activists, for instance, companies such as McDonalds, Motorola, and Nike publish supplementary reports on social responsibility (McWilliams et al., 2006). Finally, the CSR reporting behaviours vary between industries. Financial sector achieved a more than two-fold increase since 2002. Sectors with relatively high environmental consequence (utilities, mining, chemicals and synthetics, oil and gas) produce more social reports (80% of G250 and 50% of N100) (KPMG, 2005).

Referring to CSR reporting in various countries, KPMG International Survey of Corporate Responsibility Reporting (2002) shows favourable reporting trends in three developed countries as 72% of Japanese companies, 49% of UK and 32% of US companies disclose environmental social or sustainability information in various sections of their financial reports from their top 100 companies. This figure increases to 80%, 71% and 35% respectively in 2005 (KPMG, 2005). Furthermore, 82.7% of the companies with more than 10,000 employees in Japan publish CSR information (Kawashita et al, 2005). In UK, 75.8% of UK FTSE 350 firms disclose social responsibility information in annual reports (Kuk et al., 2005). A ten-year trend summarised by the Socially Responsible Investment Organisation (SRI) in the USA indicate that screened mutual fund managers incorporate more social and environment elements in their investment decisions when they screen in the number and diversity of products and companies (SRI, 2006). Welford (2005) found that the

³ G250 stands for top 250 of Global Fortune 500; N100 stands for top 100 companies in 16 countries.

differences in CSR disclosure between European and North American companies were small in his survey. Furthermore, the development of CSR in US after the Nike case is attracting more and more public attention (DeTiene and Lewis, 2005). Evidence from Australia and New Zealand are also consistent with the above OECD country findings (Roper, 2004; Bartlett, 2005).

In Asia, evidence shows that many countries are moving in a positive direction to CSR reporting, although progress is behind developed countries (except Japan and Korea) (KPMG, 2005). Japan has the largest number of companies participates in GRI programme and its overall level is same as advanced European Countries (Suzuki & Tanimoto, 2005). South Korea's progress in sustainability reporting on the environment and conservation, education and training, and welfare is quite encouraging (KMPG, 2005)

For various reasons, for instance the lack of statutory requirements, low number of non-government organisations, less public pressure, an under-developed corporate culture and unique political systems, most Asian countries are quite different while a number disclose low levels of social information (Chapple & Moon, 2005). In India, most of the speeches or reports from top management in Indian industry contain at least some of social responsibility information. However involvement or disclosure about community-related issues is given relatively less space compared to employee-benefit-related issues (Raman, 2005). Social reporting in Thailand lags developed countries because its CSR reporting is subject to various issues, e.g. low accounting disclosure requirement, lack of disclosure pressure. (Kuasirikun & Sherer, 2004). Similarly, In Malaysia, because of the lack of government and public pressure, CSR reporting is also behind developed countries' level (Thompson & Zakaria, 2004).

As summarised by KPMG (2005, p.18), "CSR reporting practice in Asia is slow but growing". Nevertheless, many Asian companies are driven by the supply chain requirements of multinational companies, strong interest from multinational customers, and strong public cognition, so these companies will inevitably have to make progress on CSR reporting. Also, the driving factors are not only sourced from respective national business systems, but also from cultural and political systems

(Chapple & Moon, 2005). In reference to China, a giant Asian country, the CSR reporting status should be reviewed with respect to the unique factors in that country.

2.8 CSR reporting in China and issues

Resulting from dynamic political and economic reforms since 1978, China has experienced a change from a closed economy to open market with various forms of entities, including both foreign investment and private business activities. However, China has also faced a number of challenges brought by rapid economic development. As a result of the recent economic changes and pressures from both the public and the government, businesses have come to realise the importance of a clear understanding of the relationship between business and social responsibility.

This section examines the drivers of China's CSR reporting, namely international standards and programme influence, the government requirements, forms of corporate social reports in China and CSR reporting practice in China.

2.8.1 International standards and programme influence

Besides CSR management standards, e.g. Social Accountability (SA 8000), China Social Compliance 9000 (CSC 9000), ISO Standards (ISO 9000 14000 and 26000), many international social and environmental programmes are also introduced to Chinese companies, for instance, United Nation's programmes (the Global Impact, United Nations Environment Programme, UN Development Programme, UN HABITAT, UNIDO) as well as European Union Programmes (China-EU Cooperation on Environmental Protection, Cooperation on Human rights, Cooperation on Human rights) and Global Reporting Initiative (GRI) (ORSE, 2006).

However, the adoption of CSR standards in China is not popular, though some Chinese manufacturers have used foreign codes such as SA 8000 and ISO standards (ORSE, 2006). These standards are mainly for manufacturing and the need for compliance of foreign traders' requirements. Global Compact and GRI, the most popular guidelines around the world, are being adopted gradually. China Mobile, the biggest telecommunication company in China, issued its first CSR report with the

title of “Sincerely Take Our Responsibility, Harmoniously Build Our Future” on December 2006. It is a report based on the new GRI guidelines. Before this event, its subsidiary Jiangxi Mobile published the first Chinese company corporate responsibility report in 2005 entitled “Jiangxi Mobile Corporate Responsibility Report 2004: An Outlook to 2010”. China Ocean Shipping (Group) Company (COSCO) released its first Sustainable Development Report on 20 December 2006 while it is the first CSR report by a state-owned enterprise based on the Global Compact guidelines.

2.8.2 Legal framework for the environment, labour and corruption

With power delegated by the Constitution, the Environment Protection Act (1989), Criminal Law (1997), Labour Law (1995) and provision of legal authorisation to several departments which are undertaking the environment protection (for instance, the State Environmental Protection Administration (SEPA), the Ministry of Finance (MOF) and China Securities Regulatory Commission (CSRC)). China Securities Regulatory Commission (CSRC), National Development and Reform Commission (NDRC) and the Administration of Quality Supervision also have issued regulations concerning the requirements for social responsibilities for listed companies.

With respect to the need for CSR activities, the Ministry of Commerce of China (MCC) has been authorized by the State Council of China as the leading department to draft the standards and criteria of CSR reporting guidelines for Chinese companies. The guidelines can be used as a reference source for individual companies to work with their own CSR reports (Li, 2006). Besides MCC, the State Environment Protection Administration (SEPA) is also an active department of the government in relation to promoting CSR reporting. SEPA encourages companies to provide corporate responsibility reporting especially with regard to their environmental performance. The promotion of corporate responsibility is considered as an important tool in environmental management besides SEPA’s mandatory laws and regulations (GOV, 2006b). MCC made the full contents of the draft of guidelines on CSR reporting public to solicit public opinion in February 2006. The theme of the framework is that the company shall be responsible for shareholders, the environment and society. The CSR reporting framework is aiming to improve corporate governance and competitive advantage to achieve sustainable development.

The labour law consists mainly of three Acts, Enterprise Law passed in 1988, the Trade Union Law of 1992 and the Labour Law of 1994. Clauses that potentially could empower workers through a number of important labour protection articles enable workers realise their right, even independent trade unions are relatively lack of power at present (Chan, 2005). They provide a legal framework for the development of industrial relations to help workers in the event of economic transition from state-owned enterprises to private entities. With the attention of the government and global supply chain pressure, labour rights are always the test points of CSR. For example, worker participation through occupational health and safety committees is encouraged when major companies have been involved in significant capacity-building projects, according to Institute for Global Communication, an independent world-wide social organisation (IGC, 2002). Some scholars view the current Chinese system that is based on an authoritative constitution as a necessary institution to protect human rights reliably (Angle, 2005). However the reform of the social security system does not fit the need of Chinese strategic move to a market economy and these factors impact on companies' behaviours which comply with Chinese labour laws and social governance (Lillywhite, 2003).

Developments with Chinese criminal law have been rapid recently as the Criminal Procedural Law was revised in 1996 and the Criminal Law was fully revised in 1997. China engaged and coordinated with international organisations and the National People's Congress (NPC) of the International Covenant on Economic, Social and Cultural Rights in October 1997 is a good example (Broadhurst & Liu, 2004). The covenant was ratified in March 2001. Further, the International Covenant on Civil and Political Rights was accepted in October, 1998 and acceded to in August 2003. For better administration and to standardise and supervise the way laws are applied, the central government has also promulgated administrative procedural laws (Law of the People's Republic of China on State Compensation, the Administrative Punishment Law of the People's Republic of China, and the Procedures for Handling Administrative Review Cases) in 2003. The National People's Congress (NPC) Standing Committee, legislature of China, was also tabled with the Chinese government for ratification in less than two years after subscribing to the United Nations Anti-Corruption Convention on October 2005. Recently, Chinese anti-

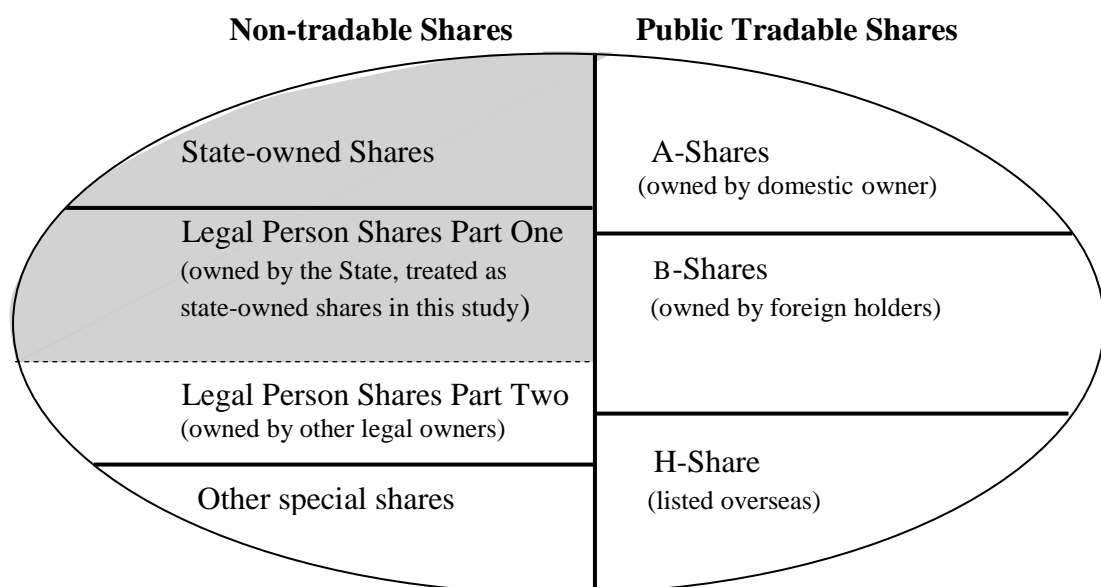
money-laundering act came into action at 1st January 2007 and the China's Central Bank is likely to expand the scope of its drive against money laundering (*China Daily*, 10 Nov 2007).

2.8.3 Share structure in Chinese listed companies

Ownership of company has influence on CSR reporting (Welford, 2007). With respect to ownership of Chinese listed companies, Johnson & Greening (1999) consider different types of investors to more precisely examine their differing impact on corporate social performance. Zarlowski (2005) also states that corporate social responsibilities are influenced by, and should be analysed in conjunction with, the corporate governance environment. Strong supportive evidence shows that CSR is a source of conflict between owners (Barnea & Rubin, 2005).

As distinct from many economic territories, most listed Chinese firms originate as state-owned enterprises and mandated to have several separate classes of ownership shares, including non-tradable share and tradable share. Figure 2.2 provides an example of ownership of China companies.

Figure 2.2 Illustration of Chinese listed company share structure



Note: the grey area stands for the portion of state-controlled shares

Non-tradable shares are mainly the shares held by the government, legal persons, founders and specific persons (e.g. employees). State-owned shares (also named Guoyougu in Chinese) are held by the central government, government ministries, or provincial, and municipal governments. Legal person shares (also named Farengu) are owned by the government and other legal persons (e.g. investment institutions, other enterprises, and the foreign partners of corporatised joint ventures). In some companies a small portion of shares is issued to employees. These shares are prohibited from trading publicly unless special approved by the government. They can be sold to other legal entities by agreement and upon approval by the government. Some legal person shares are held by the government in state-owned enterprises and this study classifies the company as state-controlled company if the sum of state-owned shares and state-owned legal person shares is over 50% of total shares.

Public shares are those shares issued to individuals. These shares can be further classified into ones restricted to domestic trading by Chinese citizens (named A-shares issued in China), and ones that can be sold to foreign individuals and entities (B-shares, issued in China) and ones that are listed on the Hong Kong and foreign stock exchanges (H-shares). The number of companies issuing B-shares is relatively small and even fewer companies offer H-shares.

There is no previous research on the relationship between of companies and their CSR using content analysis method. How the ownership influences CSR reporting is one of interest of this study.

2.8.4 CSR reporting practice of Chinese companies

The status of CSR reporting practice in China is not very clear because of lack of research relative to other countries. This is reinforced by KPMG's comment (KMPG, 2005) that in Mainland China, CSR reporting is almost non-existent. This report also points out that change is expected to appear while China continues to expand foreign trade, seek overseas listings and increasing pressure from global multinational companies' supply chains. Guo (2006) provides the fact the eighteen enterprises published CSR reports in 2006, compared to only six in 2005. He assumes more state-

owned enterprises, private companies and multinationals are expected to produce CSR reports in the future (Guo, 2006).

Some Chinese researchers have undertaken projects on Chinese listed companies' responsibility issues to urge more progress in proactive CSR in these companies from two perspectives, namely a legal and economic view and from an empirical perspective. In the first perspective, most scholars using a qualitative method agree that the increasing legal requirements will achieve better security for investors by increasing the transparency of equity markets. In other words, the national compulsory requirements would produce better economic performance (Niu, 2002; Zhou, 2006). Li (2004) looks further into the theory and the practice of Chinese environmental accounting, and discovered that the gap between is quite substantial. They also notice that the development of CSR reporting in China is behind global advanced level (Niu, 2002; Li, 2004; Zhou, 2006).

Several researchers work from another perspective using reputational index method with share-market data. The most results are consistent with above the qualitative researches that the Chinese practice of CSR reporting is far behind that of international practice. For example, Zhou & Wang (2005) compare the environmental disclosure information between the Chinese and American heavy pollution industries and discover the Chinese companies' disclosure quality and quantity is worse than US companies. However, the Chinese companies are making progress in voluntary disclosure. Li (2006) uses the reputational index method to rank the contribution to the overall social responsibilities from all listed companies by setting-up several index formulas and they discovered that the heavy production industries in fact contribute more than service industries.

Shen & Jin (2006) study the disclosure status before and after the "Code of Corporate Governance for Listed Companies in China" issued on January 7, 2002 and the disclosing styles were quite significantly different. The result shows that CSR disclosure quantity had increased. However, the disclosure quality and methods remained at same level and were highly dependent on the individual company's strategy. The disclosure content is related to industry. Shan (2007) makes similarly

concludes that the nature and character of the listed company is the major determinant of social disclosure content and format.

In contrast to international evidence, Ma (2006) finds that the Chinese share market did not react to disclosed CSR information positively and reaction varied across industries. Li (2006) holds similar a view that the Chinese market did not react to CSR information appropriately with the effect that Chinese companies will actually lose value if more CSR activities are undertaken in the short term, however, sustainability will increase in long term.

Ownership and control of many companies in the Asian region differ from those commonly seen in the West (Welford, 2007). He argues that China is the controlling shareholder in many publicly listed companies where CSR is generally much less developed than West. There is no significant independent shareholding and managers tend in order to be opportunistic to seek personal benefit (Sun & Tong, 2003). Lin et al. (1998) argue that expanding the managerial autonomy of state-owner companies will worsen the agency problems. Whether the managers in state-owned entities pay less attention to CSR is one area of interest in this study.

In summary, Chinese CSR reporting still lacks of adequate research. A number of research on CSR reporting is done by qualitative methods and reputational index method. Although content analysis method is the most popular method for CSR reporting (Jose & Lee, 2007), there is no application of this method using proven categorisation standard on Chinese listed companies CSR reporting status study. Despite China's rapidly developing economy, the current CSR reporting situation remains uncertain and little content analysis studies provide enough evidence.

2.9 Research Questions

Organisations are subject to technical and institutional environments according to their different natures and industries (Meyer & Scott, 1983). Firstly, organisations are motivated to reform their structures and become more efficient to cater for the need of their technical environments. Secondly, the pressure from their institutional environments, the financial return of organisations depends on the internal proper

processing and support from outsiders. The effect of their environments should be viewed comprehensively because the effects vary case by case. This study's aim is to evaluate the CSR reporting response of Chinese listed Companies in Chinese unique institutional environments. To be specific, this study investigates the response of Chinese Top 100 listed companies and measuring change by analysing their annual reports 2002 and 2006. Following research questions provide different perspectives for the understanding of China's CSR reporting status.

As mentioned above, Chinese government and companies are both accelerating their reporting to catch up with the advanced international reporting standards. At present, Chinese CSR reporting status is not very clear as various findings present different pictures. Shen & Jin (2006) reveal that the implementation of the "Code of Corporate Governance for Listed Companies in China" drove the development of CSR reporting in China rapidly after analysis of manufacturing industries. However, Liu & Kong (2006) stated that the CSR disclosure level is low after they investigated 2004 listed companies' annual reports. How the development of CSR reporting in China developed from 2002 to 2006 will be the focus of this study:

Research Question One: *How has CSR information disclosed by major listed Chinese Companies developed between 2002 and 2006?*

The content theme of CSR information in annual reports is one of the most important interests in this study. Gray et al. (1995) mentions that companies select certain kinds of information for marketing reasons and advertising proposal. Guo (2005) found that Chinese listed companies place more emphasis on environmental issue than other issues, while corruption is seldom mentioned. This leads to Research Question Two:

Research Question Two: *What kinds of CSR information are disclosed in annual reports?*

Subject to business nature, companies disclose information at different levels for report readers. KPMG (2005) indicates that finance and manufacturing industry disclose more than average level. Clarke & Gibson-Sweet (1999) state that organisations realised the community's commitment and goodwill is a useful tool to enhance the image of organisations and improve business performance, especially for commodity and service industries. It would be expected that heavy manufacturing

industry would have a high level of environmental and labour protection disclosure. Jenkins (2002) points out that CSR reporting is critical for the mining industry because the public image of the mining industry is not good and there is more legislative pressure on it. This leads to Research Question Three:

Research Question Three: *How does CSR information disclosed by Chinese companies vary between industries? In particular, is there any difference of CSR disclosure between non-heavy pollution industries and heavy pollution industries?*

The reporting location in the company's annual report would reflect the underlying thinking of management. Gray et al. (1995) regard the physical location of social disclosure as important because the forms of data not only deliver CSR information, but also advertising effect to impress readers. Xiao & Hu (2004) have studied the Chinese environmental reporting location of CSR within 2002 and 2003 reports and found that two main sections are director report and notes of financial reports. They only count the number of disclosing companies and no detailed counting (e.g. page, sentence and word count) was conducted. The overall current CSR reporting location is uncertain and this study attempts to bridge this gap.

Research Question Four: *What are the reporting locations in annual reports?*

CSR information can be delivered in monetary and non-monetary formats. Different industries' reporting information will be adjusted according to nature the business. Korhonen (2003) states that using monetary terms is helpful in order to assess the CSR eco-efficiency but is difficult in measurement. So it is necessary to gauge CSR information not only in monetary but also in non-monetary (declarative and numerical) terms. According to Guthrie & Parker's (1990) study, both the UK and the US favour monetary disclosure and Australian prefers non-monetary disclosures. Xiao & Hu (2004) investigated this issue but there is no detailed explanation on the findings. This lead to Research Question Five:

Research Question Five: *How is monetary value or non-monetary information presented in the CSR disclosure, and what are the various weights given in different industries?*

It may be expected that a government-controlled company is more politically sensitive because the activities of these companies are more in the public eye.

Welford (2007) argues that public shareholders' power in many Chinese listed companies is less than in the West. The agency problem will arise if there are no significant independent shareholder and managers (Sun & Tong, 2003). Privatised companies in Malaysia were incorporated to achieve some social objectives rather than being simply profit driven (Gomez & Jomo, 2002). Ghazali (2007) indicates that higher level of public accountability likely encourages additional involvement in social or community activities and subsequent disclosure of these activities. The evidence from China is not available from previous content analysis studies. Whether the managers in a state-controlled entity pay less attention to CSR is one area of interest of this study:

Research Question Six: *What is the relationship between the ownership and shareholding characteristics of companies and their CSR reporting?*

The final question is related to the comparison of Chinese CSR disclosing level with that of other countries. KMPG (2005) indicates that CSR reporting in Mainland China is almost non-existent and it is expected that the CSR reporting status will change for the need of foreign trading and seeking overseas listings and as multinational companies' operations in China. Li (2004) also identifies a gap between Chinese and global development. How big this gap is and what existing levels of disclosing are one area of interest for this study. Some researchers conduct CSR researches and count the CSR information using a word count as agent. The quantified information provides flexibility for comparison cross-culturally. There is no previous similar research using counting method for Chinese listed companies. Findings in this study would provide evidence on the progress of top Chinese companies from the 2002 to 2006 on CSR reporting:

Research Question Seven: *What is the Chinese CSR disclosure level when compared with other countries in terms of CSR word counts?*

2.10 Summary

Even though there is no unified definition of CSR or a firm theoretical framework, there is an increasing focus on both the private and public sectors to be proactive in the area of CSR. Various challenges are emanating from consumers, shareholders,

non-governmental organisations, international organisations, and other stakeholders. These challenges are increasingly recognised in public policy debates as well as in the marketplace by companies and industry sector associations and they are frequently recognised as opportunities. Throughout the last decade, companies have started including social and economic performance in their environmental reports which are converted into CSR reports or sustainability reports.

This chapter provides the literature review and research questions for following research design and data analysis. To date, there is no empirical and comprehensive research investigating the main components of CSR by Chinese listed companies using proven international CSR standards systematically. Further, previous Chinese CSR reporting researches emphasise environmental issues or particular industries (e.g. heavy pollution industries and electronic industry) which is just one aspect of CSR reporting. This study investigates the reporting theme and reporting across industries comprehensively. The utilisation of word count method as mean of content analysis is another advantage of this study because there is no previous such method studying Chinese CSR reporting. Finally, this study is the first research investigating the relationship between Chinese corporate share ownerships and CSR reporting patterns.

The next chapter providing the research design is a framework for investigating the research questions developed in this chapter.

Chapter Three Research Design

3.1 Introduction

Business research, as a schematic and systematic endeavour, is frequently used to investigate a particular problem and seek solutions. The probability of success of a research project largely relies on a correctly defined beginning which consists of a precise statement of goals and justification for them. Following the guidelines of sound research design helps to ensure the credibility of this research. To accomplish this, sequential steps are necessary for explaining the nature of the research and choosing the appropriate method. When the problems and opportunities are clearly identified, a process to gather information, analyse data and coding can be implemented accordingly. Therefore, the main purpose of research design is to ensure the investigation an issue or solving a problem legitimately in dealing with the problems and opportunities in business (Cavana et al., 2001).

This study aims to investigate following research questions:

Research Question One: *How has CSR information disclosed by major listed Chinese Companies developed between 2002 and 2006?*

Research Question Two: *What kinds of CSR information are disclosed in annual reports?*

Research Question Three: *How does CSR information disclosed by Chinese companies vary between industries? In particular, is there any difference of CSR disclosure between non-heavy pollution industries and heavy pollution industries?*

Research Question Four: *What are the reporting locations in annual reports?*

Research Question Five: *How is monetary value or non-monetary information presented in the CSR disclosure, and what are the various weights given in different industries?*

Research Question Six: *What is the relationship between the ownership of companies and the levels of CSR disclosure?*

Research Question Seven: *What is the Chinese CSR disclosure level when compared with other countries in terms of CSR word counts?*

This chapter starts from a CSR reporting methods introduction and an explanation on selection of content analysis. The content analysis procedure introduction is divided into several parts, including population and sample, data source, data collection scheme by using GRI and coding. Statistical methods (regression and two sample independent tests) of data analysis are introduced. Some issues related to data collection are discussed and finally summary of this chapter is provided.

3.2 Research methods

In general, there are three methods which can be designed to measure the CSR in terms of self-reported disclosures, namely social accounting, reputational index and content analysis of corporate publications (Abbot & Monsen, 1979). The main idea of the first method, social accounting, is to access the accounting information as reflected by new categories pertaining to the social impact of the firm in the formalised system. However, the extreme difficulties in developing a social audit at professional levels and setting up universal-recognised standards narrow the viability of implementation of this method (Abbot & Monsen, 1979). In Cochran & Wood's (1984) remarkable paper, only reputation index and content analysis were discussed as applicable CSR research methods and social accounting method was excluded.

The reputational index method refers to the rating measure systems via observable dimensions. As Cochran & Wood (1984) comment, it is internally consistent when one observer's work using the same criteria and subjective content can be transferred into rates easily so that the observer may legitimately to compare performance across various companies. However, the rankings are highly subjective and variable varying from observer to observer and it requires large sample sizes of all variables for reasons of reliability but sometimes such sizes are not always available.

Another applicable method is content analysis which consists of the content extracted from various firms' publications and reports. With respect to the problems of using social accounting and extreme high requirement of rating information using the reputational method, Abbot & Monsen (1979) comment content analysis as (p.504):

A technique for gathering data that consists of codifying qualitative information in anecdotal and literary form into categories in order to derive quantitative scales of varying levels of complexity (p.504).

Content analysis is the primary tool used for analysing the published information and is widely used in social and environmental responsibility research (Jose & Lee, 2007). Content analysis is also the dominant method used to inform the UN's *Global Reporters* reporting series which is coordinated by Sustainability (an international consultancy promoting the business case for sustainable development) with support from the United Nations Environment Programme and Standard & Poor's (Myers, 2005). Publication in the series uses content analysis to identify best practice in corporate accountability of sustainable development among various countries and industries. Also Beattie (2002) claims that quantitative content analysis is the research methods most commonly adopted and dominate the mainstream of United Kingdom CSR research, followed by interview-based studies and other studying methods.

The process of content analysis of company disclosures is relatively objective, consistent and repeatable; and it avoids the problems of subjectivity associated with other methods of research because an attempt is made to measure all variables as they naturally or normally occur and no manipulation of independent variables is attempted (Neuendorf, 2002).

Moreover, the requirement of sample size is not so rigorous because particular items are selected in this method. Companies only disclosed selected information in publication and such information appears not to cover all topics of CSR (Neuendorf, 2002). With respect to the incomplete set of information presented in annual reports and insufficient, the content analysis' competitive advantage in data requirement provides more persuasive and it is the chosen method for this study.

However, the subjective choice of content analysis highly depends on the observer's preferences. In this study, there is only one observer for coding and the variance between observers is eliminated. GRI's detailed guidelines are employed to reduce the subjective variance.

3.3 Disclosure methods

Disclosure is counted in volumetric manners so that the qualitative information can be transferred into quantitative measures. The most commonly countable measures are word count (e.g. Deegan & Gordon, 1996; Deegan & Rankin, 1996 and Wilmshurst & Frost, 2000), sentence count (Milne & Adler, 1999 and Deegan et al., 2000) and page proportion count (Guthrie & Parker, 1990, Gray et al., 1995 and Campbell, 2000). Each measurement has its inherent pros and cons. Frequency of instrument (e.g. Ness & Mirza, 1991) and high/low disclosure (e.g. Patten, 1991) are not frequently utilised (Campbell, 2004). These counts are used to measure the level of importance of CSR according to the management's view as reflected in annual reports. Word count is a robust measure in which counting errors are less likely than other measurements. But word count presents little qualitative information. Sentence count and proportion count have similar pros and cons. Compared with word count, page count forth a may bring more diluted result. For instance, a sentence with longer length or shorter length might present different levels of quality of information, similarly with page count. In this study, word count is the main analysis source.

In Milne & Adler's paper (1999), reliability of content analysis can be ensured in two ways. Firstly, content analysts have to make a clear coding instrument so that the consuming time for the use of multiple coders can be reduced. Secondly, content analysts need to ensure the coded data or data set is transferred correctly. Normally the discrepancies between different coders can be reduced by re-analysis or single code. In this study all data are collected and recorder by a single coder to ensure reliability.

The coding scheme is based mainly on Microsoft Access, a popular database software. The advantages of using computer software include ease of result generation and compulsory data input. When the coder opens an annual report and records the company information, software provides step-by-step pages to guide the coder to data entries. For instance, the coder is required to indicate the industry type, and tick the content categories provided. The location and count of expression are also compulsory.

3.4 Content analysis

In general, content analysis consists of simultaneous steps of sampling, unitising, standards of assessment of data and inferential procedures to provide for the conduct of systematic, objective and reliable research (Krippendorff, 2004). In order to design this research more appropriately, the content analysis design in this study is adopted from Colorado State University Writing Centre (CSU, 2007)⁴ and Wimmer & Dominick (2003)⁵ as follows:

1. Define the population in question and select an appropriate sample from population[#]
2. Select units of analysis^{*#}
3. Construct the categories of content to be analysed^{*#}
4. Decide whether to code for existence or frequency^{*#}
5. Develop rules of coding your texts^{*#} and develop a coding sheet^{*#}
6. Decide what to do with “irrelevant” information^{*}
7. Analyse and interpret the result^{*#}

The following research steps follow this guideline and explain the research processes.

3.4.1 Population and sample of population

According to the Chinese Government’s Official Web Portal (2005), there are about 2,628,000 enterprises, including 192,000 State-owned enterprises, 456,000 Collective enterprises and 1,980,000 Private enterprises in China in 2005. Among these companies, the listed companies are expected to have higher level of CSR reporting than other companies in China for two reasons. Firstly, the listed companies are governed under strict regulation for the public interest. Their behaviour attracts attention from stakeholders and communities. Secondly, these listed companies have more resources and are involved in more activities keeping up with global trends, including CSR innovation.

⁴ Adopted steps from CSU (2004) are marked with *.

⁵ Adopted steps from and Dominick (2003) are marked with #.

The research involved a systematic review of the contents of public disclosures written by Top 100 Listed Companies (CSI 100)⁶ in China in the fiscal years 2002 and 2006. At present, CSI 100 companies are withholding about 60% of total Chinese share market⁷. In order to compare the disclosure in these two years, only companies listed in both years would be considered. As consequence, there are 67 sample companies studied in this research, which are listed in both 2002 and 2006.

3.4.2 Data sources

Each public limited company is legally obliged to produce financial reports and post to the officially-assigned website according to China Securities Regulatory Commission regulations (CSRC). In order to ensure the quality of financial reports in PDF format, all reports are downloaded from this official website (<http://www.cninfo.com.cn>) or listed markets' official websites⁸. However, PDF files do not contain a word count function and the format of PDF of annual reports by different companies is different. As the word count is the main aim of this study, a transformation from PDF file to Microsoft Word file is used. As a consequence, all annual reports are downloaded from official websites and then are previewed. Then all annual reports are adjusted into Microsoft Word documents in a united format for text disclosure comparison purposes. For instance, the format is common margin, normal format, Mingliu text and point size 10. After adjustment, there are about 40 words in one line and 39 lines per page. During transformation, the graphics are lost so the graphic analysis is excluded in this studied. Unavoidably, the page and sentence format will be adjusted during conversion. The researcher would make sure that all reports are adjusted in unified format. In order to improve the data reliability, the researcher also obtains the annual reports from Sina Corporation (listed in New York, NASDAQ: SINA)⁹, a leading online media company for China and for the global Chinese communities. These reports are broadcasted in HTML format and then transferred into Microsoft Word format. After being compared with the reports

⁶ CSI 100 consists of the largest 100 stocks in Chinese share markets. CSI 100 aims to comprehensively reflect the price fluctuation and performance of the large and influential companies in Shanghai and Shenzhen securities markets, the only two exchanging markets in China. The names on the CSI 100 can be viewed via <http://www.csindex.com.cn/sseportal/csiportal/index.jsp>.

⁷ CSI 100 Index Handbook, available: <http://www.csindex.com.cn/sseportal/csiportal/en/xzzx/file/CSI100%20Handbook.pdf>

⁸ Listed market websites include the only two Chinese listed markets: The Shanghai Stock Exchange (SSE) (www.sse.com.cn) and The Shenzhen Stock Exchange (SZSE) (www.szse.com.cn).

⁹ SINA has been recognised as the most valuable brand and the most popular website in China, according to the ranking list by the Chinese Academy of Social Sciences and considered as the most respected Chinese company for two consecutive years in 2003 and 2004 by the Management Case Study Center of Beijing University and *Economic Observer*.

originating in PDF format and HTML format, there is no substantial difference in format and number of counts.

Many studies use annual reports as the sole data source in the CSR information disclosure investigation (Branco & Rodrigues, 2006). The first typical reason is that the annual report is the main corporate communication tool. The annual report is considered the most important information vehicle in terms of the way an organisation constructs its own social image to all stakeholders (Gray et al., 1995). Another purpose of the annual report is to provide organisations with an effective method of managing external impressions because the credibility attached to the annual report is considered higher than other corporate communication media (Neu et al., 1998). The property of similarity of presentation for easy comparisons is another significant benefit of annual reports (Gray et al., 1995). In Campbell's longitudinal sample study for the period from 1974 to 2000, no other media were a feature of the reporting environment in United Kingdom researchers' interest (Campbell, 2000).

Therefore, researchers study the CSR information in annual reports use page, sentence and word count methods as they are capable of generating volumetric measures of disclosure (Campbell, 2004). Many researchers implement CSR research using the above methods in western countries (e.g. Gray et al., 1983, Guthrie & Parker (1983), and Hackstone (1992)) and Asian countries (e.g. Tsang, (1998), Thompson & Zakaria, (2004), Xiao et al., (2005), Ratanajongkol et al., (2006)). However, there has been no previous content analysis (in terms of page, sentence or word count) in CSR disclosure levels via annual reports in China and this study attempts to bridge this gap.

In this study, the Internet is the only source of data. As an effective tool for communicating with stakeholders and a social responsibility disclosure vehicle, Internet reporting has been growing in volume because of the benefits of the internet: less cost, faster timing, interaction, exchangeable connection and accessible anytime less over other traditional channels (Maignan & Ralston, 2002; Snider et al., 2003; Campbell & Beck, 2004).

3.4.3 Construct the categories of content to be analysed using GRI

It is not surprising that there is a debate over types of sample and certain effective ways of inferring reporting quality from measurable data. Meaning, referred to the content of information, is the first consideration (Milne and Adler, 1999). How to categorise similar information in categories is a challenge for research design.

This study extracts CSR quantitative and qualitative information from Chinese Top 100 Listed companies in annual reporting and allocates such information to different categories for content analysis purposes from various perspectives.

CSR is a general term and involves many aspects of content, e.g. environment, labour rights, economic impact, etc. Using a comprehensive and reputable standard as the yardstick can provide more convincing results. Various standards have been implemented to practices, such as Global Impact (GRI), International Labour Organisation (ILO), SA8000, ISO standards and so on.

According to a KPMG global CSR survey (KPMG, 2005), GRI is the primary reference (40%) when companies select CSR reporting content, nearly double than that of Stakeholder consultation (21%), the second most popular reference. As a globally recognised guideline, GRI is now an official collaborating centre of United Nation Environment Protection and Coalition for Environmentally Responsible Economies. Furthermore, GRI works in cooperation with the United Nation's Global Compact (Global Compact, 2007). Since 2003, companies have been encouraged to adapt GRI guidelines under the Global Compact.

GRI, a collaborating centre of the United Nations Environment Programme, aims to set a standard for a common global Sustainability Reporting Framework. The core of the framework is the Sustainability Reporting Guidelines. This was the result of a multi-stakeholder collaboration that occurred between 2004 and 2006. The third version of the guidelines (G3) was planned to be released in final form in October 2006. To date, nearly 1000 organisations in over 60 countries have used the GRI Framework as the basis for their reporting (GRI, 2006). The first GRI Chinese version was published in 2002 and Chinese companies are recommended to follow GRI.

The GRI aims to develop a globally applicable framework for reporting on an organisation's sustainability performance. The framework presents reporting principles and specific content indicators to guide the preparation of reports such as Sustainability Reports or CSR Reports. With respect to GRI's most popular application and comprehensive perspectives are from GRI, the categories are designed according to GRI guidelines¹⁰ in this study.

According to GRI guideline on standard disclosures, there are three types of standards disclosures, namely (1) Strategy and Profile, (2) Management Approach and (3) Performance Indicators. Strategy and Profile provides a strategic view on the organisation's sustainability and the general process of CSR activity involvement. Management Approach discloses the content themes in which the organisation is involved in specific areas. The performance indicators are developed to correspond to each Management Approach in terms of more detailed categorisations.

Table 3.1 Summary of three types of CSR indicators in GRI guidelines

<u>Strategy and Profile</u>	<u>Management Approach</u>	<u>Performance indicators</u>
1. Strategy and Analysis	6. Economic	Detailed indicators for each approach
2. Organisation Profile	7. Environmental	
3. Report Parameters	8. Labour and work	
4. Governance and Engagement	9. Human rights	
	10. Society	
	11. Product Responsibility	

Source: Adapted from GRI guidelines Version 3.0 (2006).

The limited application of GRI guidelines should be noticed since these guidelines are designed for sustainability reporting. Sustainability reporting includes reporting in separate CSR reports and CSR reporting in annual reports. Because there is no universal guideline for CSR disclosure for annual reports for all companies and stakeholders, GRI guidelines are adapted here to provide a systematic review since it is the most adopted guideline.

¹⁰ These guidelines are available from Global Reporting Initiatives website (www.globalreporting.org).

3.4.4 Strategy and Profile disclosure structure

In the GRI guidelines definition, the Strategy and Profile section discloses the overall context for report readers about the organisational performance such as its strategy, profile and governance. The summary of Strategy and Profile disclosure is listed as follows:

Table 3.2 Summary of Strategy and Profile disclosure in GRI guidelines

Index	Strategy and Profile Disclosure Issues	Location in reports (note 1)
1. Strategy and Analysis		
1.1	Statement from the most senior decision-maker of the organisation (e.g., CEO, chair, or equivalent senior position) about the relevance of sustainability to the organisation and its strategy.	Diversified in many parts of the report
1.2	Description of key impacts, risks, and opportunities.	Not examined in this study
2. Organisational Profile		
2.1	Primary brands and service	Board Report
2.2	Operational structure	Board report
2.3	Nature of ownership and legal form	Capital and share section
2.4	Scale of organisation	Board Report
2.5	Awards received in the reporting period.	Diversified in many report parts
2.6	Significant event	Not examined in this study
3. Report Parameters		Not examined in this study
4. Governance		
4.1	Governance structure of the organisation	All in Corporate governance section.
4.2	Whether the board or management control the governance body	
4.3	Mechanisms for shareholder and employee	
4.4	Process to avoid conflict of interest	
4.5	Internally developed statement of mission	
4.6	Address of external precautionary approach	
4.7	Memberships in associations	
4.8	Lists of stakeholders group engaged by organisation	
4.9	Approach for stakeholder engagement	
4.10	Key topics and concerns of engagement	

Note 1: finding of location of the index

Source: Adapted from GRI guidelines Version 3.0 (2006).

For the first section, the statement count (Index 1.1) is only a count on the statements with definite CSR or equivalent concepts in annual reports. One reason is that this study is to investigate CSR information, not the overall stakeholder relationship, so the statement is limited to CSR statement only. Because the key impacts, risks, and

opportunities (Index 1.2) require subjective adjustments and are very diversified in many parts of annual reports, this index is not studied.

The second reporting section (Organisational Profile) is compulsorily required by the Chinese Security Law 2006 and all companies must disclose these kinds of information¹¹. Because the standards for the Strategy and Profile section (Index 2.1 to 2.4) response come from various parts of the report and require subjective adjustments, this study only evaluates the information in particular sections. One example is the scale of the organisation (Index 2.4). In GRI guidelines, the revenue, capitalisation and the number of employees is relevant, which are stated in whole reports. For reasons of simplification, this study only takes the revenue and capitalisation information in the board reports and counts the length. For Index 2.5, the information is objective and easily to be counted and the location is in all parts of the reports. The Significant Events (Index 2.6) are mixed with financial events and as it is hard to evaluate how the event would affect the CSR reporting, they are excluded.

The Report Parameters (Section 3) cover the report profile (reporting period, date of recent previous report, reporting cycle and contact), report scope and boundary. Annual reports provide details of such information compulsorily and this information is not directly related to CSR information. It is hard to measure while the CSR information often dilutes with financial information and as these two sections are not important for this study, this section is not counted.

For the Governance section (Index 4), Chinese regulations require these to be a separate section in annual reports to present the governance structure and status¹². All contents in Governance section (index 4) are essential so the counting takes the whole section only.

¹¹ According to the article of "a brief account of the company's general situation", Article 61 (1) in 2002 Version and Article 66 (1) 2006 Version, Security Law of the People's Republic of China (2006), (source: <http://www.csrc.gov.cn/n575458/n6807967/n6808030/6808108.html>) and Announcement No. 141, 2005 of China Securities Regulatory Commission, <Listed Company Information Disclosure and Annual Report Formant and Content>, Section Two (source:<http://www.csrc.gov.cn/n575458/n6807967/n6808062/n6809658/n6820028/n6820103/6830257.html>)

¹² Announcement No. 141, 2005 of China Securities Regulatory Commission, <Listed Company Information Disclosure and Annual Report Formant and Content>, Section Six Corporate Governance, (source:<http://www.csrc.gov.cn/n575458/n6807967/n6808062/n6809658/n6820028/n6820103/6830257.html>)

3.4.5 Management Approach disclosure structure

As per the GRI guideline, the disclosures on Management Approach should provide a brief overview of the organisation's Management Approach. The Disclosures on Management Approach is employed for addressing the next level of detail of the organisation's approach to managing the sustainability topics associated with risks and opportunities. Details content of the Management Approach aspects defined under each Indicator Category are set for performance information. Such information indicates the CSR content theme disclosed by companies. These content is categorised into six categories, namely: Economic, Environmental, Labour and Decent Work, Human rights, Society, and Product Responsibility. Detailed aspects are illustrated in Table 3.3.

Table 3.3 Summary of Management Approach disclosure in GRI guidelines

1. Economic	Economic Performance, Market Presence and Indirect Economic Impacts.
2. Environmental	Materials, Energy, Water, Biodiversity, Emissions, Effluents, and Waste; Products and Services, Compliance, Transport and Overall environment statements.
3. Labour and decent work	Employment, Labour/Management Relations, Occupational Health and Safety, Training and Education, Diversity and Equal Opportunity.
4. Human rights	Investment and Procurement Practices, Non-discrimination, Freedom of Association and Collective Bargaining, Abolition of Child Labour, Prevention of Forced and Compulsory Labour, Complaints and Grievance Practices, Security Practices and Indigenous Rights.
5. Society	Community, Corruption, Public Policy, Anti-Competitive Behavior and Compliance.
6. Product responsibility	Customer Health and Safety, Product and Service Labeling, Marketing Communications, Customer Privacy and Compliance.

Source: Adapted from GRI guidelines Version 3.0 (2006).

It should be noted that most elements of the Management Approach involve voluntary disclosure except for some labour issues in this study. Employee Composition and provision of Employee Benefits are compulsorily to be disclosed in the section on employee composition and note of statement respectively¹³. This study provides

¹³ According to China Statement Standards of Accounting Practice Section 34 "Employment benefit" and Announcement No. 141, 2005 of China Securities Regulatory Commission, <Listed Company Information Disclosure and Annual Report Formant and Content>, (source:<http://www.csrr.gov.cn/n575458/n6807967/n6808062/n6809658/n6820028/n6820103/6830257.html>), listed companies are required to Employee Benefit (e.g. superannuation and welfare provision) in the note of financial statements and disclose Employee Composition breakdown (number, qualification and position) in the Director, Independent Director, Executive Management and Employee Section.

results on analysis of inclusive and exclusive compulsory content according to research questions.

3.4.6 Industry categorisation and heavy industry categorisation

The China Securities Regulatory Commission releases industry categorisation guidelines¹⁴ for listed companies and all listed companies are categorised into 13 industries. These industries include: Agriculture, Mining, Manufacturing, Utilities (including Gas and Water), Building, Transportation and Logistic, Information Technology, Wholesale and Retail, Finance and Insurance, Property, Society Service, Broadcasting and Culture, and Consolidated Enterprises.

According to the guidelines¹⁵ for listed companies released by the State of Environmental Protection Administration of China in June 2003 and August 2007, the heavy pollution industries include Metal, Chemical Manufacturing, Petroleum, Mining, Coal Utilities, Building Material Manufacturing, Paper Manufacturing, Fermenting and Feathering. This categorisation under this guideline is different from that of the China Securities Regulatory Commission. This study investigates the business line and decides company by company whether the companies in fact operate in a heavy pollution industry.

3.4.7 Categorising for locations

According to Grey et al. (1995), location of CSR reporting would be board report, footnote, a separate section in the main body, separate section in mixed into the body, auditor's ambit and any indication to independent CSR report.

3.4.8 Categorising for presentation form

The CSR information is always present in terms of monetary and non-monetary (declarative and numerical) information (e.g. Grey et al., 1995 and Ratanajongkol et al., 2006). This simple category is designed to investigate the application of presentation form of CSR information disclosing. Therefore, they are used in this study.

¹⁴ The China Listed company industry categorisation guideline, China Securities Regulatory Commission (source:<http://www.csrc.gov.cn/n575458/n575667/n642011/1993315.html>).

¹⁵ Guidelines Number 101 (2003) and Number 105 (2007) of State of Environment Protection Council of China (www.sepa.gov.cn).

3.4.9 Categorising for standards

According to the KPMG survey (2005), the CSR employed by sample companies is classified into four groups, namely GRI standard, ISO standard, SA standard and other standards. Therefore, these standards are used in this study.

3.5 Bivariate regression and two sample independent tests

Besides the content analysis, this study utilises regression and two sample independent tests to understand the possible shareholding effect on the CSR reporting presentation. Bivariate regression is a procedure for deriving a mathematical relationship between a single metric dependent variable and a single metric independent or predictor variable in the form of an equation. This model implies a deterministic relationship in this study, while CSR words are completely determined by the percentage of public shareholding. This method makes it relatively simple to present the relationship. This study also employs two sample t-Test tests to two objects. This first object is to test the CSR reporting status between companies with and without overseas shareholders. The second object is the evaluation of any state-controlled effect on CSR reporting. Accordingly, companies are divided into categories and compared with the mean between categories.

3.6 Summary

This chapter explores the research design of this content analysis and the design of the overall scheme of recording data. It starts from the available methods and selection of content analysis, followed by research questions. According to the nature of the questions, relevant forms for content collected are designed. After recording such data, the next chapter explores the data and finds CSR reporting status.

Chapter Four Findings and Analysis

4.1 Introduction

As stated, the key objectives of this study are to investigate the development and the levels of CSR reporting in Chinese listed companies provided in annual reports in terms of determining levels and reporting trends between 2002 and 2006. The reporting styles, such as presentation form and location within reports are also focus of this study. With respect to unique Chinese economic environment and the nature of the local share market, the shareholding effect on CSR reporting performance is an important objective.

This chapter provides an overview and detailed comparative results of corporate social responsibilities discoursed by 67 companies which are common in the Top Listed Company List in both 2002 and 2006. As stated in the last chapter, some measurements, such as counting (word, sentence, and page) is used as the agents of information disclosure. The change between the two years reflects the progress of CSR reporting via annual reports.

The GRI guidelines are employed as the CSR information disclosure yardstick in this study. Overall, this set of guidelines is divided into two main parts: the first part of the GRI standards is company's Strategy and Profile, followed by the Management Approach, including Economic, Environmental, Human rights, Society and Product Responsibility aspects.

Accordingly the chapter consists of 12 sections, from analysis of reporting company profile to a specific aspects comparison. After the introductory section (this section), the second section presents the general summary for all sample annual reports, including the total lengths (pages, lines and words) of all reports. The third section introduces the GRI guidelines and principles, which comprise the data-categorising guidelines in this study. The fourth section collects the disclosure data for the Strategy and Profile study, followed by the sections of CSR content disclosure analysis. The CSR content is equivalent to the Management Approach under GRI

guidelines¹⁶. CSR content is the main aim of this study and it covers sections 5 to 11, including the CSR content themes and other reporting status, such as reporting location, CSR guidelines are also discussed in following sections. Comparison with CSR reporting in other countries is conducted in the second last section. Finally, the conclusion of the chapter is presented.

4.2 Overview of CSR information in annual reports

Within the Top 100 Listed Companies, there are 67 which are listed in both 2002 and 2006. Most companies conduct different lines of business. According to industry categories guidelines released by the Chinese Minister of Commerce, companies will display their industry code as Consolidated Enterprises if two or more streams of revenue are more than 25% of their whole income from two or more industries. In these two years only one company (Shanghai Oriental Pearl (Group) Co. Ltd, listed ID 600832) is classified in this category. Top 100 listed companies are holding one third of total assets of listed companies in China in 2004 (MCPRC News, 2005).

Overall, 72% of the sample companies are from capital-intensive industries, (e.g. Manufacturing, Utility and Transportation). This weighting in sample companies is similar level of all listed companies while 73.8% of all China listed companies are capital-intensive in 2004 (MCPRC News, 2005).

This study collects the number of page, line and words of every annual and count. The total and result is as follows:

Table 4.1 Summary of page, line and word for financial reports 2002 & 2006

	2002		2006		Δ % (note 1)
	Sum	Average per report	Sum	Average per report	
Pages	5,375	80.22	7,813	116.61	45.36%
Lines	220,699	3,294	293,521	4,381	33.00%
Words	3,223,834	48,117	4,451,797	66,445	38.09%

Note 1: Δ % stands for the percentage increase from 2002 to 2006

Source: Prepared for this study

¹⁶ Under GRI Guidelines Version 3.0 (2006), the Management Approaches are the “disclosures that cover how an organisation addresses a given set of topics in order to provide context for understanding performance in a specific area” (p6), namely economic, environmental, Labour practice, human rights, society and product responsibility. These Management Approaches are similar to other generally defined CSR content. In this study, the definitions of Management Approaches and CSR contents are interchangeable.

In general, the lengths of reports increased significantly between these two years. The average rates of increase are 45.36%, 33.00% and 38.09% in page, line and word count respectively. The page percentage increased faster than line and word because as there was an increase in the use of graphics and charts and those occupy more space in reports.

Because the increasing length of in whole reports is not the focus of this study, the count of whole report pages, lines and words is to merely provide a context on reporting development.

4.3 GRI general information

As mentioned in Chapter Three, there are three types of standard disclosures, namely: (1) Strategy and Profile (2) Management Approach and (3) Performance Indicators.

Table 4.2 Summary of three types of CSR indicators in GRI guidelines

<u>Strategy and Profile</u>	<u>Management Approach</u>	<u>Performance indicators</u>
1. Strategy and Analysis	6. Economic	Detailed indicators for each approach
2. Organisation Profile	7. Environmental	
3. Report Parameters	8. Labour and work	
4. Governance and Engagement	9. Human rights	
	10. Society	
	11. Product Responsibility	

Source: Adapted from GRI guidelines Version 3.0 (2006).

The following section, 4.4, will investigate the application of Strategy and Profile and Sections 4.5 to 4.10 will study the Management Approach (CSR content) disclosure in the sample companies.

4.4 Strategy and Profile disclosure in annual reports

In Table 4.3, word counts for each index increase from 2002 to 2006, with a range from 15.84% to 607.64%. The most significant increase happened in the CSR Concept and Statement (Index 1.1) because the number of companies which express their CSR or equivalent terminology in annual reports increased from only 1 to 12. Corporate governance is the most common section that the companies emphasise.

Table 4.3 Summary of Strategy and Profile disclosure according GRI guidelines

Year	02	06	2002	2006	Δ %	2002	2006	Δ %	2002	2006	Δ %
Number of companies			Pages			Lines			Words		
1.1 CSR Concept and statement	1	12	0.75	4.28	473.83%	28	171	510.71%	825	5838	607.64%
2.1 Service and brand	67	67	11.36	12.70	11.82%	459	516	12.42%	12993	15051	15.84%
2.2 Operational structure	67	67	50.07	55.57	10.99%	1984	2220	11.90%	38254	45347	18.54%
2.3 Nature of Ownership	67	67	62.59	74.92	19.71%	2470	2992	21.13%	31146	36312	16.59%
2.4 Scale of organisation	67	67	39.09	40.68	4.04%	1594	1634	2.51%	32198	38017	18.07%
2.5 Awards	9	16	1.28	1.98	54.90%	47	81	72.34%	1522	2692	76.87%
4 Corporate governance	67	67	92.88	136.50	46.97%	3550	5413	52.48%	105457	139080	31.88%
Total			258.0	327.97	27.12%	10,132	13,081	29.11%	222,395	284,246	27.81%

Source: Prepared for this study

Overall, companies released more information and increased disclosure, which is consistent with Zhou's (2005) finding.

Table 4.4 CSR Concepts and Statement (Index 1.1 in Table 4.3)

Year	Company Name	Industry	Pollution	Pages	Lines	Words
2002	China Petroleum & Chemical Corporation	Mining	Yes	0.75	28	825
2006	Shenzhen Overseas Chinese Town Holding Company	Property	No	0.15	6	163
2006	China Vanke Co. Ltd.	Property	No	0.20	8	327
2006	Shanghai Pudong Development Bank	Finance	No	0.60	24	887
2006	Shenzhen Expressway Company Limited	Transportation and logistic	No	0.40	16	649
2006	Guangzhou Development Industry (Holdings) Co., Ltd.	Utilities	Yes	0.30	12	508
2006	Beijing Capital Co. Ltd	Society Service	No	0.13	5	165
2006	Shenzhen Energy Investment Co. Ltd	Utilities	Yes	0.30	12	294
2006	China Petroleum & Chemical Corporation	Mining	Yes	0.75	30	1196
2006	Baoshan Iron & Steel Co., Ltd.	Manufacturing	Yes	0.60	24	611
2006	Hunan Valin Steel Tube & Wire Co., Ltd	Manufacturing	Yes	0.33	13	433
2006	Angang New Steel Company Limited	Manufacturing	Yes	0.45	18	518
2006	Minmetals Development Co., Ltd.	Mining	Yes	0.08	3	87
Total 2006				4.28	171	5838
Average 2006				0.36	14.25	486.50

Source: Prepared for this study

To be specific, the CSR Concept and Statement provides a long-term perspective from the executive level view of the organisation's relationship to sustainability. It also indicates the understanding of CSR and long-term direction from a corporate CSR activity perspective. It is indicative of the attitude of the management on the understanding of CSR and also future direction. This study researches defined CSR concepts and statements made in annual reports definitively and comprehensively. Some companies provide only positions on merely environmental and a labour view. Those which do not provide comprehensive statements on CSR are excluded from this index count.

Referring to Table 4.4, in 2002, only China Petroleum & Chemical Corporation (listed ID# 600028) displayed a separate section named "Health, Safety and Environment" in its annual report for public investors in the Hong Kong, New York, London and Shanghai Exchange Markets. In 2006, there are twelve companies expressing their understanding of CSR in their annual reports. Manufacturing industry (three companies), Property industry (two companies) and Utilities industry (two companies) are the most frequently reporting industries which express CSR statements or equivalent.

4.5 CSR Management Approaches and Performance Indicators

The Management Approaches indicate how an organisation addresses a given set of topics and provide a context for understanding performance in particular areas. The levels of managing the sustainability topics associated with risks and opportunities are also reflected by such content. Performance Indicators are used to elicit comparable information on the economic, environmental, and social performance of the organisation under each Management Approach by providing more detailed indices.

4.5.1 CSR disclosure development between 2002 and 2006

This section provides statistical results by giving a general picture of CSR Management Approach disclosure in 2002 and 2006. Table 4.5 in this section

investigates the distribution of CSR disclosure between reports in 2002 and 2006 respectively and Table 4.6 provides evidence of development from 2002 to 2006.

Table 4.5 Statistical results for the CSR disclosure (word count) in 2002 and 2006 (One Sample Test) respectively

	Total words	Average	t	df	Sig. (2-tailed)	Mean Difference
CSR 2002	21,471	320.46	0.00	66	1.000	0.00269
CSR 2006	35,583	531.10	0.00	66	1.000	-0.01045

Source: Prepared for this study

This section is to investigate the deviation of reporting level in one particular year. Table 4.5 shows that the disclosure levels are very different between companies in 2002 and 2006 respectively because the significance level is 1.00 in both years.

Further, there are eight companies which disclosed more than 800 words and 16 companies used less than 200 words in 2002. In 2006, there are six companies disclosing more than 1,000 words and 16 companies using less than 300 words. This reveals that the CSR disclosure levels in Chinese listed companies diversified significantly in 2002 and 2006 respectively.

Table 4.6 Statistical results for the CSR disclosure between 2002 and 2006 (Paired Samples Statistics and Correlations)

	N	Correlation	Sig.
Words 2002 & Words 2006	67	.640	.000

Source: Prepared for this study

Table 4.6 states the general picture of those 67 listed companies' Management Approach and the statistic result. It provides the result that the overall disclosing levels in 2002 and 2006 are significant different after 134 reports are examined (two reports for each 67 companies). In Table 4.5, the average words on CSR and average disclosing information per report have increased from 320 words to 531 words, indicating rapid development from 2002 to 2006. This result is significant because the significance level is 0.00 as the means are significant if the level is less than 0.05.

4.5.2 Total incidence of indicators

In order to understand the Management Approach disclosed by company management, a content study of each approach is necessary.

Table 4.7 General Management Approach and Indicators in 2002 and 2006

Panel A:												
Number of Companies				Pages			Lines			Words		
Management Approach	2002	2006		2002	2006	Δ %	2002	2006	Δ %	2002	2006	Δ %
1. Economic	Total	3	5	0.23	0.30	35.56%	8.00	11.00	38%	196	239	22%
	Average (note 1)			0.08	0.06	-18.67%	2.67	2.20	-18%	65	48	-27%
	Percentage of Total (note 2)									0.91%	0.67%	
2. Environment	Total	19	38	1.44	6.53	353.65%	61.00	249	308%	1496	6983	367%
	Average			0.08	0.17	126.82%	3.21	6.55	104%	79	184	133%
	Percentage of Total									6.97%	19.63%	
3. Labour and Decent Work	Total	67	67	28.35	36.15	27.53%	1099	1384	26%	18674	23642	27%
	Average			0.42	0.54	27.53%	16.40	20.66	26%	279	353	27%
	Percentage of Total									86.97%	66.46%	
4. Human rights	Total	0	0	0.00	0.00	0.00%	0.00	0.00	0.00%	0.00	0.00	0.00%
	Average			0.00	0.00	0.00%	0.00	0.00	0.00%	0.00	0.00	0.00%
	Percentage of Total									0.00%	0.00%	
5. Society	Total	4	14	0.32	2.39	640.31%	13.00	95.00	631%	446	3206	619%
	Average			0.08	0.17	111.52%	3.25	6.79	109%	112	229	105%
	Percentage of Total									2.08%	9.01%	
6. Product Responsibility	Total	7	11	0.65	1.71	163.08%	26.00	51.00	96%	659	1,503	128%
	Average			0.09	0.16	67.41%	3.71	4.64	25%	94	137	45%
	Percentage of Total									3.07%	4.23%	
Total		67	67	30.98	47.08	51.95%	1207	1790	48%	21,471	35,573	66%
Total average				0.46	0.70	51.95%	18.01	26.72	48%	320	531	66%
Panel B: If exclude employ benefit and composition disclosure, the Labour and decent work and sum of indicators are as below:												
3. Labour and decent work	Total	21	36	2.39	6.43	169%	95.00	197.00	107%	2,760	6,907	150%
	Average			0.11	0.18	57%	4.52	5.47	21%	131.43	191.86	46%
Total				5.02	17.36	245.55%	203	603	197%	5,557	18,838	239%
Total Average		37	52	0.14	0.33	145.87%	5.49	11.60	111%	150	362	141%

Note 1: the figures in average line stand for the disclosure amount per company in particular year, e.g. 65 (words in 2002) = 196/3(number of companies in 2002).

Note 2: this percentage is the ratio of individual word number in approach to total words, e.g. for Economic Approach in 2002, 0.91% (words percentage in 2002) = 196/21,471.

Source: Prepared for this study

As shown in Panel A of Table 4.7, the total corporate social disclosure increased from 21,471 to 35,573, while average words increased from 320 to 531 (increased at 66%). If the compulsory disclosure on Employee Composition and Benefit¹⁷ are excluded,

¹⁷ According China Statement Standards of Accounting Practice Section 34 "Employment benefit" and Announcement No. 141, 2005 of China Securities Regulatory Commission, <Listed Company Information Disclosure and Annual Report Formant and Content>, (source: <http://www.csrr.gov.cn/n575458/n6807967/n6808062/n6809658/n6820028/n6820103/6830257.html>), listed companies are required to employee benefit (e.g. superannuation and welfare provision) in the note of financial statements and disclose employee composition breakdown (number, qualification and position) in the Director, Independent Director, Executive Management and Employee Section.

the total number of words increased from 5,557 to 18,838 in Panel B. In other words, increasing CSR information is due to increasing voluntary disclosure.

Among the six approaches, Labour and Environment are the most frequent topics, while the rest four issues are much less often covered in annual reports. The 67 companies use biggest proportions of words are on Labour issues. The overall words related to Labour issues are 18,674 in 2002 and 23,642 in 2006. For the voluntary Labour disclosure, the figures are 2,760 in 2002 and 6,907 in 2006. There were 21 and 36 companies disclosed voluntary Labour information in 2002 and 2006 respectively. It can be concluded that the weight of compulsory Labour disclosure is high in both years. For example, Angang Steel Company Limited (Listed ID# 000898) disclosed 535 and 634 words in 2002 and 2006 respectively. If compulsory employee content is excluded, the figures are 181 and 241 words.

The second most popular disclosure issue is the Environment with 19 of 67 companies discloses Environmental issue using 1,496 words in 2002 and 38 of 67 companies using 6,983 words in 2006. The percentage increase rate is 367%. The average words in 2002 and 2006 are 79 and 184 respectively, an increase of 133%. For example, Panzhihua New Steel & Vanadium Company Limited (Listed ID# 000629) disclosed 87 and 573 words on Environment issues in 2002 and 2006 respectively. This company's increased rate in Environment disclosure is 559% between these two years.

The most significant increase happens in the Society Section. The amount of disclosing companies is relatively small compared with other Approach, 4 in 2002 and 14 in 2006. The words disclosed are 446 and 3,206 in 2002 and 2006 respectively, while the increasing percentage is 619%. One example is China Vanke Co. Ltd (Listed ID# 000002), which discloses 212 and 549 words in 2002 and 2006 respectively.

The disclosure in Economic and Product Responsibility is below overall average of 320 and 531 in 2002 and 2006 respectively. The total disclosing words for the economic approach are 169 and 239 in 2002 and 2006, while the words on product

responsibility are 659 and 1,503 in 2002 and 2006. There is no human rights disclosure in either 2002 or 2006.

The only decreased disclosure level is Labour issue which dropped from 86.97% to 66.46%. It still remains the biggest proportion of disclosure. This is due to stable disclosing level in compulsory sections (Employee Benefit and Composition) while voluntary disclosure in other sections increases significantly. The next largest portion is environment, increased from 6.97% to 19.63%, which is also the most rapid increasing approach. Society issue are the third largest section with 9.01% in 2006.

4.5.3 Performance Indicators in each Management Approach

Table 4.8 provides more detailed information about the page, line and word reporting for every indicator. The sample companies show 204 indicators in 2002 and 333 in 2006, with a rate increase of 63%. The favoured approaches include Environment issues (19 in 2002 and 38 in 2006), Labour issues (67 in 2002 and 2006 due to compulsory disclosure requirement) and Society (4 in 2002 and 14 in 2006).

Table 4.8 Performance Indicators in each Management Approach

Number of Companies				Pages			Lines			Words		
Performance Indicators		2002	2006	2002	2006	Δ %	2002	2006	Δ %	2002	2006	Δ %
Economic	1.1 Economic Performance	3	3	0.23	0.25	13%	8	9	13%	196	206	5%
	1.2 Market presence	0	2	0.00	0.05	-	0	2	-	0	33	-
	1.3 Indirect economic impacts	0	0	0.00	0.00	-	0	0	-	0	0	-
	Sub-Total (note 1)	3	5	0.23	0.30	36%	8	11	38%	196	239	22%
Environment	2.1 Material	7	17	0.28	1.32	376%	13	39	200%	369	1,072	191%
	2.2 Energy	9	21	0.36	1.34	269%	16	55	244%	382	1,424	273%
	2.3 Water	3	6	0.15	0.20	33%	6	8	33%	122	154	26%
	2.4 Biodiversity	0	0	0.00	0.00	-	0	0	-	0	0	-
	2.5 Emissions, effluents and waste	1	21	0.35	1.65	371%	14	66	371%	349	1,982	468%
	2.6 Products & Services	1	3	0.08	0.13	67%	3	5	67%	91	119	31%
	2.7 Compliance	1	7	0.10	0.60	500%	4	24	500%	62	834	1245%
	2.8 Transport	1	2	0.05	0.08	50%	2	3	50%	28	58	107%
	2.9 Overall	1	18	0.08	1.23	1533 %	3	49	1533 %	93	1,340	1341%
	Sub-Total	19	38	1.44	6.53	354%	61	249	308%	1,496	6,983	367%

(To be continued)

Table 4.8 Performance Indicators in each Management Approach (continued)

		Number of Companies		Pages			Lines			Words		
Performance Indicators		2002	2006	2002	2006	Δ %	2002	2006	Δ %	2002	2006	Δ %
Labour practices and decent work	3.1 Employment statement	3	12	0.28	1.31	377%	11	36	227%	368	1,113	202%
	3.2 Labour and management relations	2	10	0.38	0.78	107%	15	31	107%	530	887	67%
	3.3 Occupational health and safety	8	18	0.36	1.95	438%	16	51	219%	358	2,499	598%
	3.4 Training and education	10	18	1.17	1.86	59%	45	58	29%	1,276	1,705	34%
	3.5 Diversity and equal opportunity	3	7	0.20	0.53	162%	8	21	163%	228	703	208%
	3.6 Employee benefits	67	67	12.56	12.60	0%	494	469	-5%	7,576	8,147	8%
	3.7 Employee position and qualifications	67	67	13.40	17.13	28%	510	718	41%	8,338	8,588	3%
	Sub-Total	67	67	<u>28.35</u>	<u>36.15</u>	<u>28%</u>	<u>1,099</u>	<u>1,384</u>	<u>26%</u>	<u>18,674</u>	<u>23,642</u>	<u>27%</u>
Human rights	4.1 Investment and procurement practices	0	0	0	0	0%	0	0	0%	0	0	0%
	4.2 Non-discrimination	0	0	0	0	0%	0	0	0%	0	0	0%
	4.3 Freedom of association	0	0	0	0	0%	0	0	0%	0	0	0%
	4.4 Child labour	0	0	0	0	0%	0	0	0%	0	0	0%
	4.5 Force and compulsory labour	0	0	0	0	0%	0	0	0%	0	0	0%
	4.6 Security practices	0	0	0	0	0%	0	0	0%	0	0	0%
	4.7 Indigenous rights	0	0	0	0	0%	0	0	0%	0	0	0%
	Sub-Total	0	0	0	0	0%	0	0	0%	0	0	0%
Society	5.1 Community	3	8	0.17	1.05	509%	7	42	500%	234	1266	441%
	5.2 Corruption	0	1	0.00	0.35	-	0	14	-	0	520	-
	5.3 Public policy	0	6	0.00	0.59	-	0	25	-	0	780	-
	5.4 Anti-competitive behaviour	0	0	0.00	0.00	-	0	0	-	0	0	-
	5.5 Compliance	1	2	0.15	0.40	167%	6	14	133%	212	640	202%
	Sub-Total	4	14	<u>0.32</u>	<u>2.39</u>	<u>640%</u>	<u>13</u>	<u>95</u>	<u>631%</u>	<u>446</u>	<u>3,206</u>	<u>619%</u>
Product responsibility	6.1 Customer health and safety	4	6	0.28	0.58	-	11	23	-	200	707	-
	6.2 Product and service labelling	1	6	0.05	0.25	-	2	10	-	57	262	-
	6.3 Marketing communications	1	3	0.25	0.80	-	10	14	-	327	453	-
	6.4 Customer privacy	0	0	0	0	-	0	0	-	0	0	-
	6.5 Compliance	1	1	0.08	0.08	7%	3	4	33%	75	81	8%
	Sub-Total	7	11	<u>0.65</u>	<u>1.71</u>	<u>162%</u>	<u>26</u>	<u>51</u>	<u>96%</u>	<u>659</u>	<u>1,503</u>	<u>128%</u>
Overall counts		67	67	30.98	47.08	<u>52%</u>	1,207	1,790	<u>48%</u>	21,471	25,573	<u>66%</u>
Total indicator		204	333									

Note 1: the number of companies in the sub-total line is the number of companies which disclose CSR information in the particular Management Approach. It is not the sum of companies for each performance indicator because some companies disclose more than one in particular Management Approach.

Source: Prepared for this study

The most dramatic changing indicators include Material (191%), Energy Saving (273%), Emissions (468%), Environmental Compliance (1,245%) and Overall Statement (1,341%), employment statement (202%), Occupational Health and Safety (598%) and Diversity and Equal Opportunity (208%). Table 4.7 also reveals that some topics are not covered by Chinese companies either 2002 or 2006, for instance, the Indirect Economic Impact, Biodiversity, Anti-Competition, Customer Privacy and Human rights.

4.6 CSR indicators in industries

Table 4.9 presents the CSR disclosures via industries. In this study, the industry categorisation is according to the guideline released by China Securities Regulatory Commission in 2003¹⁸. In this study every company's main business is classified according to the records of Shenzhen Securities Information Co., Ltd, the China official listed company disclosing website¹⁹. Each company's business and percentages of income source are reviewed and compared with the official record for higher reliability. All industry categorisation records are reconciled.

Table 4.9 CSR disclosures via industries

	Number of company	Pages			Lines			Words		
		2002	2006	Δ %	2002	2006	Δ %	2002	2006	Δ %
1 Agriculture (note 1)	2	0.68	1.10	63%	27	44	63%	414	772	86%
Average								207	386	
Percentage of Total (note 2)	2.99%							1.93%	2.17%	
2 Mining	3	1.78	2.13	20%	70	85	21%	1,396	1,650	18%
Average								465	550	
Percentage of Total	4.48%							6.50%	4.64%	
3 Manufacturing	26	12.15	16.30	34%	462	634	37%	7,375	11,422	55%
Average								284	439	
Percentage of Total	38.81%							34.35%	32.11%	
4 Utilities, Gas and Water	10	4.21	8.42	100%	186	287	54%	3,464	6,307	82%
Average								346	631	
Percentage of Total	14.93%							16.13%	17.73%	
5 Building	0	0.00	0.00	0%	0	0	0%	0	0	0%
Average								0	0	
Percentage of Total	0.00%							0.00%	0.00%	

(To be continued)

¹⁸ Chinese Listed company industry categorisation guideline, China Securities Regulatory Commission, (source: <http://www.csrc.gov.cn/n575458/n575667/n642011/1993315.html>)

¹⁹ Shenzhen Securities Information Co., Ltd website: www.cninfo.com.cn

Table 4.9 CSR disclosures via industries (continued)

		Pages			Lines			Words		
Number of companies		2002	2006	Δ %	2002	2006	Δ %	2002	2006	Δ %
6 Transportation & Logistic	12	4.90	7.20	47%	194	293	51%	3,195	5,351	67%
Average								266	446	
Percentage of Total	17.91%							14.88%	15.04%	
7 Information Technology	2	1.18	1.43	21%	47	59	26%	453	872	92%
Average								227	436	
Percentage of Total	2.99%							2.11%	2.45%	
8 Wholesales and Retail	1	0.65	0.65	0%	22	22	0%	334	355	6%
Average								334	355	
Percentage of Total	1.49%							1.56%	1.00%	
9 Finance & Insurance	4	2.48	3.70	49%	98	112	14%	2,414	2,810	16%
Average								604	703	
Percentage of Total	5.97%							11.24%	7.90%	
10 Property	2	0.98	2.38	145%	39	127	226%	1,234	2,624	113%
Average								617	1,312	
Percentage of Total	2.99%							5.75%	7.38%	
11 Society Service	4	1.83	3.10	70%	55	130	136%	1,074	3,043	183%
Average								269	761	
Percentage of Total	5.97%							5.00%	8.55%	71%
12 Broadcasting & Culture	0	0.00	0.00		0	0		0	0	
Average								0	0	
Percentage of Total	0.00%							0.00%	0.00%	
13 Consolidated Enterprises	1	0.18	0.68	286%	7	30	329%	118	367	211%
Average								118	367	211%
Percentage of Total	1.49%							0.55%	1.03%	
Total	67	31	47	52%	1,207	1,823	51%	21,471	35,573	66%
Average per company								320.46	530.94	

Note 1: the number of companies indicates the number of sample companies in particular industry.

Note 2: this percentage of company indicates the percentage of sample companies in particular over the total 67 sample companies. For example, in 2002 Agriculture's level is 1.93%, being 414 divided by 21471.

Source: Prepared for this study

All industries were found to have increased disclosure of words at an average rate of 66%. The most CSR words are disclosed by Manufacturing industry at 32.11% in 2006, dropped from 34.35% in 2002. The second largest disclosure is from Utilities industry (16.13% in 2002 and 17.73% in 2006), followed by the Transportation industry (14.88% and 15.08% in 2002 and 2006 respectively).

Regarding the increasing reporting rate, Consolidated Enterprise industry (there was only Shanghai Oriental Pearl (Group) Co Ltd fell into this category) is the fastest developing industry in CSR reporting, with an increasing rate of 211%. The Property industry also developed quickly at the rate of 113%. IT and Utilities industries are also developing at a rate above average. Manufacturing, the largest disclosing

industry is at an increasing rate of 55%. The Wholesales and Retail industry is the most conservative industry registering a rate of 6%. The average disclosing rate per report in individual industries indicates the highest disclosing word amount (1,312 per industry per report) is generated by the Property industry, much further advanced than the second industry (Finance Industry with a average of 703 words) and third, Utilities Industry (631 words) in 2006. Mining, Manufacturing and IT industries are about 500 words per report in 2006.

According to the guidelines²⁰ for listed companies released by State of Environmental Protection Council of China in June 2003 and August 2007, the heavy pollution industries include Metal, Chemical Manufacturing, Petroleum, Mining, Coal Utilities, Building Material Manufacturing, Paper Manufacturing, Fermenting and Feathering. The categorisation under this guideline is different from that of the China Securities Regulatory of Commission. For example, Baoshan Iron & Steel Co., Ltd, a steel manufacturer, is classed as a heavy-pollution industry, while Gree Electric Appliances Inc of Zhuhai is not a heavy pollution business. There are 29 heavy-pollution companies and 38 non-heavy pollution companies in the sample pool of 67 companies.

Table 4.10 provides the comparison between heavy and non-heavy pollution companies by average amount of indicator words between 2002 and 2006. The average CSR disclosure level in heavy pollution companies is higher than non-heavy companies while heavy pollution companies presents an average 459.17 words in their 2002 and 2006 annual reports, compared with 400.28 words from non-heavy pollution companies.

Table 4.10 Average heavy pollution vs. non-heavy CSR disclosure

Number of Companies			Pages (avg, note 1)			Lines (avg)			Words (avg)			
			Yes	No	Δ %	Yes	No	Δ %	Yes	No	Δ %	
Economic	1.1 Economic Performance	4	2	0.07	0.11	-36%	2.50	3.50	-29%	59.75	81.50	-27%
	1.2 Market presence	1	1	0.03	0.03	0%	1.00	1.00	0%	17.00	16.00	6%
	1.3 Indirect economic impacts	0	0	-	-	-	-	-	-	-	-	-

(To be continued)

²⁰ Guidelines Number 101 (2003) and Number 105 (2007) of State of Environment Protection Council of China (www.sepa.gov.cn).

Table 4.10 Average heavy pollution vs. non-heavy CSR disclosure (Continued)

Number of Companies			Pages (avg)			Lines (avg)			Words (avg)			
Yes No (Note 2)			Yes	No	Δ %	Yes	No	Δ %	Yes	No	Δ %	
Environment	2.1 Material	16	3	0.07	0.04	61%	2.14	1.67	28%	57.50	58.67	-2%
	2.2 Energy	17	3	0.07	0.03	95%	2.46	1.75	41%	61.58	51.25	20%
	2.3 Water	6	2	0.04	0.04	5%	1.57	1.50	5%	36.50	29.00	26%
	2.4 Biodiversity	0	0	-	-	-	-	-	-	-	-	-
	2.5 Emissions, effluents and waste	19	3	0.07	0.04	73%	2.88	1.67	73%	84.58	44.00	92%
	2.6 Products and services	2	1	0.06	0.03	133%	2.33	1.00	133%	63.00	21.00	200%
	2.7 Compliance	5	2	0.06	0.10	-35%	2.50	3.83	-35%	112.67	110.00	2%
	2.8 Transport	2	1	0.04	0.05	-25%	1.50	2.00	-25%	22.50	41.00	-45%
	2.9 Overall	9	7	0.08	0.06	40%	3.22	2.30	40%	99.89	53.40	87%
Labour practices and decent work	3.1 Employment	2	9	0.14	0.10	46%	5.67	2.50	127%	154.67	84.75	82%
	3.2 Labour and management relations	3	7	0.06	0.12	-51%	2.25	4.63	-51%	63.75	145.25	-56%
	3.3 Occupational health and safety	15	4	0.09	0.08	14%	2.43	3.20	-24%	108.95	113.80	-4%
	3.4 Training and education	6	11	0.11	0.11	0%	2.67	4.44	-40%	76.00	129.31	-41%
	3.5 Diversity and equal opportunity	2	6	0.05	0.09	-43%	2.00	3.50	-43%	61.25	114.33	-46%
	3.6 Employee benefits	29	38	0.18	0.19	-6%	7.07	7.28	-3%	129.76	117.93	10%
	3.7 Employee Composition	29	38	0.24	0.22	6%	9.03	9.26	-2%	129.76	123.68	5%
Human rights	4.1 Investment and procurement practices	0	0	0.00	0.00	-	0.00	0.00	-	0.00	0.00	-
	4.2 Non-discrimination	0	0	0.00	0.00	-	0.00	0.00	-	0.00	0.00	-
	4.3 Freedom of association	0	0	0.00	0.00	-	0.00	0.00	-	0.00	0.00	-
	4.4 Child labour	0	0	0.00	0.00	-	0.00	0.00	-	0.00	0.00	-
	4.5 Force and compulsory labour	0	0	0.00	0.00	-	0.00	0.00	-	0.00	0.00	-
	4.6 Security practices	0	0	0.00	0.00	-	0.00	0.00	-	0.00	0.00	-
	4.7 Indigenous rights	0	0	0.00	0.00	-	0.00	0.00	-	0.00	0.00	-
Society	5.1 Community	5	4	0.09	0.16	-45%	3.43	6.25	-45%	116.00	172.00	-33%
	5.2 Corruption	0	2	0.00	0.12	-100%	0.00	4.67	-100%	0.00	173.33	-100%
	5.3 Public policy	1	5	0.13	0.09	35%	5.00	4.00	25%	124.00	131.20	-5%
	5.4 Anti-competitive behaviour	0	0	0.00	0.00	-	0.00	0.00	-	0.00	0.00	-
	5.5 Compliance	0	2	0.00	0.18	-100%	0.00	17.67	-100%	0.00	284.00	-100%
Product responsibility	6.1 Customer health and safety	1	8	0.13	0.08	55%	5.00	3.22	55%	112.00	88.33	27%
	6.2 Product and service labelling	0	3	0.00	0.08	-100%	0.00	3.00	-100%	0.00	79.75	-100%
	6.3 Marketing communications	0	3	0.00	0.00	-	0.00	6.00	-100%	0.00	195.00	-100%
	6.4 Customer privacy	0	0	0.00	0.00	-	0.00	0.00	-	0.00	0.00	-
	6.5 Compliance	1	0	0.08	0.00	-	3.50	0.00	-	83.00	0.00	-
Total average		29	38	0.62	0.55	13%	29.83	22.20	12%	459.17	400.28	15%

Note 1: These figures are the average disclosure amount per report over these two years (2002 and 2006). The sum of page, line and word counts for heavy pollution and non-heavy industry in 2002 and 2006 are 36.13 & 41.93, 1,343 & 1,687, 26,632 & 30,422 respectively.

Note 2: Yes stands for heavy pollution company and No stands for not, while Δ % is the percentage of average disclosure amount by heavy pollution company over non-heavy pollution company in any particular indicator.

Source: Prepared for this study

This Table (4.10) reflects different reporting emphasis from these two types of companies. The most frequent disclosing areas pertain to Environment and Labour issues. More heavy pollution companies release environmental information for report readers and the number of words is higher than for non-heavy pollution companies. Material, Energy Saving, Emissions and Overall Environment statements are favourite items by heavy pollution companies. The number of reporting heavy companies is much more than non-heavy pollution companies in this study and the margins of average disclosing word amounts for the heavy pollution companies over non-heavy pollution companies for these four indicators range from 15% to 53%.

Occupational Health and Safety also shows a significant gap between these two types of companies. There are 16 heavy pollution companies mentioning these issues in their annual reports, using 125.3 words average. Only three non-heavy pollution companies discuss this issue with an average of 35 words.

Non-heavy pollution companies disclose more information in some areas, e.g. Labour and Management Relations. Overall, more heavy pollution companies disclose more CSR information, particular environmental and labour information and the average length of word disclosures longer than non-heavy.

4.7 Location

Sixty-three out of 67 companies reveal CSR information merely in the Board Report section. As mentioned above, the provision of (1) Employee Benefits and (2) Employee Composition (Index 3.6 and 3.7 in Table 4.8) are compulsorily reported in particular sections in annual reports. If excluding this compulsory employment information is excluded, most of voluntary CSR information is disclosed in the Board report section, with following four exceptions:

- China Vanke Co. Ltd discloses CSR information in forewords and board reports in both 2002 and 2006.
- The Shanghai Pudong development bank uses a separate section to emphasise the importance of the CSR concept and the CSR development status within this bank.
- China Petroleum & Chemical Corporation uses a separate section within the report body and the board report for CSR disclosing.
- Wantong Expressway discloses CSR in the governance section.

The average CSR disclosing level among these four companies provides evidence as to whether different reporting manner exists. Table 4.11 provides these four companies' average disclosing amount, comparing them with average levels.

Table 4.11 Summary of companies in CSR disclosure in sections other than the board report

Company Name	2002			2006			Word sum of two year	Percentage over average (note 1)
	Page	Line	Word	Page	Line	Word		
China Vanke Co. Ltd	0.87	35	1167	1.68	99	2194	3361	294.95%
Shanghai Pudong Development Bank	0.55	21	484	0.68	27	637	1121	31.73%
Wantong Expressway Ltd	0.58	23	457	0.70	28	508	965	13.40%
China Petroleum & Chemical Corporation	1.02	40	754	1.04	41	775	1529	79.67%
Average of 67 sample companies	0.46	18	320	0.70	26.72	531	851	

Note 1: the percentage is rate of balance of the disclosing word by the company over average level. For example, China Vanke's $294.95\% = (3361 - 851) / 3361$.

Source: Prepared for this study

Table 4.11 shows that these four companies disclose more words than the average of all sample companies. The disclosure levels of CSR disclosure vary between four companies and average level. China Vanke Co. Ltd and China Petroleum & Chemical Corporation disclose 295% and 80% more than average levels, while Shanghai development bank and Wantong Expressway Limited present about 32% and 13 % more than average respectively.

4.8 Format of presentation

In general, CSR information is usually represented in three forms, namely declarative, numerical and fiscal. Different forms of representation deliver various kinds of information for report readers.

Table 4.12 Forms of presentation CSR information

	2002 Words (percentage)		2006 Words (percentage)		Increased Amount	Increased % from 2002
Declarative	4,273	(19.90%)	16,480	(46.33%)	12,207	285.68%
Numerical	8,817	(46.06%)	10,219	(15.90%)	1,402	15.90%
Fiscal	8,381	(39.03%)	8,874	(5.88%)	493	5.88%
Total	21,471	(100.00%)	35,573	(100.00%)	14,102	

Source: Prepared for this study

Table 4.12 demonstrates that in 2002, the biggest portion (46.06%) of CSR was in numerical information (mainly the employee composition information), followed by the fiscal information (39.03%). In 2006, because more information is disclosed in a declarative manner, the declarative word becomes the most frequent format (46.33%) and the declarative amount of CSR information increased 285.68% from 2002 to 2006.

4.9 Share ownership effect

In this study, the government is holding shares in 63 of 67 companies and most of them (61 of 67) are under government control. The effects of different shareholding on CSR disclosure are the focus of this study. This section investigates only voluntary CSR information because voluntary disclosure is more capable of reflecting managements' discretion on disclosing information selection. Because some companies disclose only compulsory information and no voluntary information is released, 45 reports are not considered in this section. In other words 89 reports in two years are used for analysis in this section.

4.9.1 Public shareholding evidence

With respect to the available word and public trading share percentage, a simple bivariate test is employed in this study. The public holding percentage, which is the

number of tradable shares in market over the total share, is the independent variable and the word count constitutes dependent variable.

Table 4.13 Table of public controlling effect

	B	Standardized Coefficients	Regression Sig.	Beta	t	Sig.	R Square	Adjusted R Square
Constant	58.828	91.808	.013		.641	.523	0.068	.057
Share %	542.316	214.909		.261	2.523	.013		

Note: Dependent Variable: Words

Predictors: (Constant), Listed Share Percentage

Source: Prepared for this study

Table 4.13 shows that CSR disclosure in the form of wording is positively related to the public controlling level. The result is significant at 0.05, and implies that the companies disclose more CSR information when more shares are controlled by the public. However, the power of regression is weak since the R Square is 0.068. Further study is necessary.

4.9.2 Foreign Shareholding effect

In this study the sample reports are divided in two groups, the type with only A shares and the other with A share plus overseas share (either B shares or H shares). A shares are the share for domestic shareholders and B shares are for only foreign shareholders and both are initially listed in China. H shares are the share listed in the Hong Kong market and holding by foreign shareholders.

Table 4.14 Two sample independent tests for foreign shares and CSR

Group Statistics		Type of reports	N	Mean		Std. Deviation	Std. Error Mean
Words		Only A share	56	246.3750		277.83773	37.12763
		B or H share	33	321.4545		400.78588	69.76787
Words	F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference
Equal variances assumed	1.508	.223	-1.042	87	.300	-75.07955	72.08086
Equal variances not assumed			-.950	50.342	.347	-75.07955	79.03174

Source: Prepared for this study

Table 4.14 demonstrates that there are 56 reports with only A share and 33 reports in another category. The average disclosing level for the companies with either B or H

share is above companies with only A shares. The foreign share-listing companies present an average of 321.45 words and the pure local-listed level is 246.38 words. However, the confidence level on more active disclosing attitude on foreign listing companies is lower than 95% because the significant level (0.223) is higher than 0.05. Further studies are necessary.

4.9.3 State-controlling effect

Most of the current companies in Chinese listed market are controlled by the government. Presumably the state-controlling companies would present less CSR information since they face less pressure from the public. Some state-controlled companies are controlled by more than one entity, including local and overseas (mainly Hong Kong) entities. In order to classify the state-control, this study investigates the whole picture of shareholders of the sample companies and classify as state-controlled if more than 50% of shares are held by state-controlled entities.

Table 4.15 Table of state-controlling effect

Group Statistics	State-controlling	N	Mean	Std. Deviation	Std. Error Mean		
words	Yes	81	263.7901	332.60700	36.95633		
	No	8	379.7500	281.51262	99.52974		
Independent Samples Test and t-test for Equality of Means)							
	F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference
Equal variances assumed	.003	.958	-.952	87	.344	-115.96	121.85009
Equal variances not assumed			-1.092	9.048	.303	-115.96	106.16939

Source: Prepared for this study

There are 81 reports classified as state-controlled since the state-owned share is in the majority or the major shareholders with executive power is owned by the government. Table 4.15 reveals that the state-controlled entities generally released less CSR information in annual reports while state-controlling companies display an average of 263.79 words in their reports. The non-state-controlling companies display more words (379.75) in their annual reports. However, the p is greater than .95 so that the confidence level is low. Again, further studies are necessary.

4.10 CSR Standards

In general, international CSR standards are not popular in these 67 companies since only a small proportion of the companies use the CSR standards as guidelines. For example, China Petroleum & Chemical Corporation (listed ID 600028) adapted a programme named HSE (Health, Safety and Environment), with the guardians of international HSE consultant organisations in 2002 and 2006.

By 2006, there were four more companies employing SA14000 as standards, namely Hualin Pine (listed ID# 000932), China ChaChemical International group (listed ID# 600500) and Linhu Expressway Company (listed ID# 600377). Anshan Steel group (listed ID# 000898) employs TS16949 for production and environmental protection guidelines. In other words, there is no evidence that the rest of the 62 companies have adopted for the CSR standards.

4.11 Independent CSR reports as indicated by annual reports

The proportion for separate CSR report indicated by annual report is 3% of the 67 companies. There are two companies which did provide separate CSR reports for their 2006 annual report readers: Baoshan Iron & Steel Co., Ltd (listed ID# 600019). is the first steel enterprise to produce an independent CSR report; Shanghai Pudong Development Bank Co. Ltd (listed ID# 600000) is the first Chinese bank producing an independent CSR report. Neither company indicated separate CSR report in 2002.

4.12 Summary

This chapter investigates the CSR reporting by the 67 top listed companies which listed in both 2002 and 2006. The data running starts from a linear analysis of all reports' length followed by enumeration from profile and Management Approach perspectives.

The content analysis result shows that overall annual report length increased from 2002 to 2006 by 38% in terms of word count. The Strategy and Profile disclosure

result confirms that the overall length has been increased by 27.81%, in which the corporation governance section contributes the most.

The content analysis on the Management Approach is the main aim of this study. The overall words for the Management Approach increased 66%. The two sample t-tests support the contention that the means of sample companies in CSR Management Approach disclosures in 2002 and 2006 increased significantly.

With respect to the content theme, Labour and Environmental issues are the most two popular themes, while only modest statements on Economic and Human rights are made. If the compulsory content (the Employee Composition and Benefit provisions) is excluded, the Environmental issues would be the most prominent reported on ahead of labour issues. The most popular sub-theme includes Material, Energy, Water, Emissions, Employment, Occupational health and safety, training, Employee benefits and Employee position.

The data from an industry perspective show that Mining, Manufacturing, Utilities, Finance and Banking, and Property industries presents more disclosing words than other industries. The Property, Social Service and Consolidated industries are the most disclosure developed industries with increase of more than 100%. It also shows that heavy pollution industries disclosed more environmental and occupational safety information.

The companies which disclosed CSR voluntary information outside of the board report section appear to release more CSR information in their annual reports. Declarative information is the main form of CSR information presentation.

The ownership-effect tests show that the companies with more public shareholding, with overseas shareholders and non-state control appear to disclose more CSR information.

The following chapter discusses data result in terms of this study seven research questions and also considers the limitations of this study and suggests for future research.

Chapter Five Discussion and conclusions

5.1 Introduction

Growing demand from stakeholders increase companies' incentives for global CSR involvement and reporting levels. Whether Chinese companies follow this trend and what the CSR reporting development is between 2002 and 2006 is the focus of this study. This chapter discusses results generated in previous chapter. The following sections discuss each research question addressed in this study, followed by comparison with other countries. Finally the limitations, suggestions for future research and conclusions of this study are presented.

5.2 Response to Research Question One

Research Question One: *How has CSR information disclosed by major listed Chinese Companies developed between 2002 and 2006?*

A number of studies (e.g., Shan, 2007; Shen & Jin; 2006) found that China CSR reporting in annual reports has improved significantly. This study finds that the CSR information is improving, in terms of disclosing both quantity and quality. This is consistent with the above studies. The study shows more disclosures for each of the content indicators under consideration. The amount of each indicator expands at an increasing rate of 63%. The word count was 69,643 in 2006, compared with 42,283 in 2002. The environment and society issues show the most development of content.

One possible reason is more reporting requirements. For example, Sinopec Shanghai Petrochemical Company Limited (Listed ID #606688) produced a longer report due to pressure from Hong Kong, American and Chinese reporting requirements. The word number was 104,167 in 2006, 30% more than the number of 74,647 in 2002. The China Company Act that went into effect on 1st January 2006 has required listed companies to report on CSR since 2006. Other reporting regulations like the Sarbanes-Oxley Act also increase reporting requirements in America.

Another possible reason is an increase in voluntarily disclosure so that more CSR companies pay attention to the stakeholder relationship and more non-financial information is released. Wangke Property Limited (Listed ID# 000002) is an example. In 2006 this company used more sections in its report to explain the company's strategy and commentary attention including CSR concept. The word count of the report is 106,255 in 2006, more than 100% of 2002 (50,525).

However, the overall development is still far behind other countries race. In 2006, only 12 of the 67 sampled companies discussed CSR in annual reports, compared with an international rate of almost 80% of companies (KMPG, 2005).

5.3 Response to Research Question Two

Research Question Two: *What kinds of CSR information are disclosed in annual reports?*

Looking at the kinds of CSR information disclosed in annual reports, Tables 4.3 and 4.5 illustrate two perspectives. With the limited scope of analysis on Strategy and Profile disclosure in Table 4.3, Chinese listed companies emphasise corporate governance information over other profile information. Table 4.5 shows most voluntary CSR information is on environmental issues in Management Approach. However, if the employee-related compulsory information is considered, most CSR information comes from labour perspectives in terms of word count. Furthermore, only about 20% of companies in 2006 disclosed information about product responsibility and society, while companies seldom disclose economic and human rights issue in their reports.

Table 4.7 shows a more detailed perspective. Material, energy saving, emission reduction and overall attitude to environmental issues are reported by listed companies, similar to Guo's findings in his 2001 survey (2005). Guo identified that environmental policy, environmental impact and information about emissions are the top three environmental reporting items.

Training, safety, Employee Benefit and Composition are the popular issues in the labour section, the last two items being required under China regulation. The reason is the increasing intellectual capital (IC) reporting activities of China listed companies. Abeysekera (2007) includes Employee Benefit, training, safety in the human capital category under the umbrella of IC. He states the increasing reporting is a trend. Williams (2004) found that there was a significant increase in the amount of IC disclosure in the annual report of UK public listed companies and Goh & Lim (2004) found Malaysian evidence from annual reports. The result of this study supports the trend of increasing IC reporting in the employee category in China.

China listed companies report particular content disclosures only and such information is not complete according to GRI guideline. Human rights and Society are little covered. Reporting environmental and labour-related issues are more popular than other aspects in reports.

5.4 Response to Research Question Three

Research Question Three: *How does CSR information disclosed by Chinese companies vary between industries? In particular, is there any difference of CSR disclosure between non-heavy pollution industries and heavy pollution industries?*

The results in this study show that the Finance, Utilities, Mining and Property industries are the most disclosing industries and they disclose 55% more words than the overall disclosing average. This result is similar to some findings in other countries. KMPG (2005) shows the top three industries are Utilities, Finance and Oil & Gas among the national 100 companies and the Global 250 biggest companies, reflecting the growing attention in these industries to CSR related issues. Magness (2006) states that those companies that maintaining themselves in the public eye disclose more CSR information when legitimacy theory is applied to this issue.

It is remarkable that the Property Industry contributes CSR disclosure to such a significant degree. Robert et al. (2007) states that several factors are instrumental in the rise of CSR, including the desire to manage and minimise environmental risk,

pressure to reduce legislative impact and rising public concern. Vanke, the biggest property company in China and one of the listed companies in this study, makes an remarkable statement about the property market in annual its 2006 annual report:

In the face of the problem of scarcity of land for a large population and an astounding rate of acceleration in the progress of urbanisation, and when this young industry suddenly found itself shouldering the responsibility of providing housing for hundreds of millions of urban families. (p.4)

Also, the government has noted the complaints about rapidly increasing property prices. Wen Jiabo, Premier of the State Council, spoke of his primary serious concerns about the Chinese property market in a meeting held by the China Singapore Chamber of Commerce and Industries (*Xinhua Net*, 20 November 2007).

Following global trends, all industries in China have made progress in CSR disclosures with an average rate of increase 66% between 2002 and 2006. Property, Society service and Consolidated Enterprises industries recorded a more than 100% increased rate. There are differences in the CSR disclosures between heavy and non-heavy industries. The findings in this study may point to some causative factors. Firstly, heavy industries appear to realise the importance of CSR and are willing to disclose more public information, as their average disclosure is higher than non-heavy industries. Secondly, heavy industries show an interest in particular types of disclosure, for example environmental protection and safety issues appear more frequently than for non-heavy industries. This is due to the nature of heavy industries as they engage in more environmentally-related operations and hazardous work environments. The results also show that some companies in non-heavy-pollution industries also disclose CSR information much more than average level (e.g. Vanke Property Ltd and Sino-Chemical International Ltd also disclosed 3,310 and 646 word in average both 2002 and 2006, higher than CSR information than average level of 400 words from heavy pollution companies). This result indicates that companies' disclosing styles are influenced by not only business pollution nature, but also other factors. An industry's characteristics affect its CSR disclosing behaviours and companies appear to provide appropriate content according to the operating environment.

5.5 Response to Research Question Four

Research Question Four: *What are the reporting locations in annual reports?*

According to GRI guidelines, disclosure information on (1) Strategy and Profile and (2) Management Approach is helpful to report readers in assessing the company's CSR status. Because the Strategy and Profile information is subjective and spread through reports, this study looked only at the location of information about the firm's Management Approach.

The Board Reports, board and employee composition section and the notes to the financial reports are the three usual locations for CSR (Management Approach) information. Specifically, the employee composition information is in the compulsory Board and Employee Composition Section and Employee Benefit information is in the notes section. Except for four companies in the 67 studied companies, the sample companies disclose other CSR information in the board report section. Xiao et al. (2005) also notes that the director report and the notes to the accounts are the most popular section for CSR disclosures both in UK and Hong Kong listed companies. Furthermore, in Table 4.9, four exception companies disclose more words in other part of reports. Gray et al. (1995) regard location of CSR disclosure as important because the forms of data would affect report readers' impressions and the results of this study are consistent with Gray et al.'s (2005) conclusion. These four companies highlight their remarkable CSR involvement for marketing reasons and this result seems consistent with Gray et al.'s findings (2005).

5.6 Response to Research Question Five

Research Question Five: *How is monetary value or non-monetary (including declarative and numerical) information presented in the CSR disclosure?*

The sample companies used forms of declarative, numerical and monetary disclosures when reporting to readers. Similar to those in Australia (Raar, 2007) and Thailand (Ratanajongkol et al., 2006), Chinese companies mainly use declarative information.

Companies disclose monetary information in Employment Benefit Provisions, Donations (only several companies) and Production Investment related to environmental issues. The apparently low use of monetary information is related to difficulty in measurement. As Korhoenen (2003) points out, the monetary value of CSR is always very difficult to assert since it is incomplete by using conventional economic methods. But listed companies face public pressure and disclose non-monetary CSR information to communicate the necessary ecological and social information. Secondly, the CSR concept is relatively new so the introductions of wider concepts and strategic view explanations (rather than monetary measures) help stakeholders understand the CSR activities. Thirdly, CSR reporting is not well advanced in China as most China companies just briefly express their intentions without using a systemic monetary reporting approach.

5.7 Response to Research Question Six

Research Question Six: What is the relationship between the ownership and shareholding characteristics of companies and their CSR reporting?

Three shareholding characteristics, namely public shareholding, foreign shareholding and state ownership are investigated in this study. Regression is used to test the public holding character and the two-sample tests are used to test the later two shareholding effects.

The regression test (Table 4.13) shows that the greater the public holding, the more CSR information is likely to be disclosed in annual reports by sample companies. This result confirms Ghazali's (2007) findings that wider holdings by public shareholders and higher levels of public accountability are likely to encourage additional involvement in social or community activities and subsequent disclosure of these activities. Accordingly, it may be expected that the level of CSR disclosures is negatively associated with ownership concentration. In this sense, CSR reporting can act as a monitoring tool, reducing agency costs between managers and shareholders.

The two-sample test (Table 4.15) shows that those companies under state control disclose less CSR information. A possible reason is that state ownership representatives lack a direct personal stake in the company and management has less interest in engaging in social responsibility reporting. Also state shareholders (often state agencies) seek objectives other than influence or profitability and have direct influence on companies' activities and resource allocation decisions. Thus it is reasonable to expect that these factors would weaken the pressures for CSR reporting.

The test related to foreign ownership shows the greater need for disclosure as a means to monitor the actions of management by foreign owners. More extensive CSR disclosures and a widened dissemination of CSR information can also create a better impression of transparency and bridge any perceived information asymmetry. This may be particularly important for foreign investors. Another reason is that those Chinese companies issuing B or H shares are required to follow International Financial Reporting Standards (IFRS) or the accounting standards of the foreign investing countries. As more CSR disclosure in annual reports is a trend in foreign countries, these additional disclosures tend to encompass a broader CSR scope than the domestic reports.

From this study's results, it can be said that CSR disclosures are positively related to the characteristics of the type of shareholding. This study shows that the average disclosure level of companies with overseas shareholders and non-state-controlled companies is higher than the major companies which are controlled by government and those without overseas shareholder holdings. However, the statistical result shows that further studies in this area are needed because the confidence levels are relatively low.

5.8 Response to Research Question Seven

Research Question Seven: *What is the Chinese CSR disclosure level when compared with other countries in terms of CSR word counts?*

In order to make global reporting comparisons, this study analyses the incidence of CSR (percentage of CSR fully reporting companies), in terms of Theme (Management Approach) and count comparison, Standards or guidelines and Trends.

Table 5.1 Comparison between China and findings in other countries in terms of average disclosure per report

Research (note 1)	1	2	3	4	5	6	7	7	8	This study		
Territory	Western European	Australia, Singapore, Korean	New Zealand	Singapore	Malaysia	India	U. K	Hong Kong	Thailand	China		
Sector	Top 25 in six countries	Top 50 in each countries	Top 50	Bank, food beverage & hotel	Top in listed market	Top 50	Property banking & utility	Property banking & utility	Top in listed market	67 of top 100 companies in both 2002 & 2006		
Sample number (2)	150	148	50	33	257	50	36	33	40	67		
Disclosing samples (3)	N/A	56	47	17	207	40	36	33	30	67 (55)		
Data Year	1992	1998	1992	1995	2001/02	2005	1993-1997	1993-1997	2001	2006		
Average Pages	3.13	3.47								0.70		
Average Sentence			19.45	11.08	84.54	9.34				26.72 (Line)		
Average Words							7,415	2,080	842.10	530.94		
Unit (4)	Page	Page	Sentence	Sentence	Sentence	Sentence	Word	Word	Word	Page	Line	Word
Theme(5):												
Economy	N/A									0.00	0.16	3.57
Environment	0.69	0.38	2.40	0.24	6.39	0.88	683	153	128.20	0.10	3.72	104.22
Labour	1.95	2.07	11.13	5.39	37.86	2.72	5,581	1,298	331.80	0.54	20.66	352.87
Human rights	N/A	0.44										
Society		0.44	3.66	5.37	18.27	2.26	595	228	268.90	0.04	1.42	47.85
Product	N/A	0.07	1.68		20.35	3.48			65.10	0.03	0.76	22.43
Other	0.5	0.07	0.57	0.08	1.67		557	400	48.10			
Notes :												
(1) Research papers: (1) Adams, C., Hill, W. and Roberts, C., (1998), (2) Newton, M. and Deegan, C., (2002), (3) Hackston, D. and Milne, M, (1996), (4) Tsang, (1998), (5) Thompson, P. and Zakaria, Z. (2004), (6) Raman, S., (2006), (7) Xiao, J., Gao, S., Heravi., S and Cheung, Y., (2005), (8) Ratanajongkol, S., Davey, H., and Low, Mary. (2006).												
(2) the sample size is sightly different because some samples are added or excluded by the original researchers												
(3) Newton and Deegan’s study in Australia and Tsang’s study in Singapore only considers voluntary disclosure. In 2006 there are 55 Chinese companies disclosing voluntary CSR information.												
(4) The China count unit is line which is designed to compare with sentence count. Word count is more reliable for comparison purposes.												
(5) For the New Zealand, Singapore and Malaysia study, the energy count is group with environment section. For the diversity and business ethics count, they are grouped in the other theme.												

Source: adapted from this study and previous researches

It should be noted that since some of studies were conducted at different times, were of different sizes, had different methods and were in different economic environments. Another inherent problem is the presenting problem in different languages. Because of the linguistic differences, different languages might present same meaning in a different word counts. As a result, this result is only to provide a general picture, not an accurate comparable result.

Table 5.1, measuring theme disclosures, shows that Labour is most disclosed item, followed by Environment issues globally. It is possible due to increasing public pressure on environment and labour issues. Further, it is reasonable that companies would obtain more legitimacy benefits by disclosing more information in these two issues.

It is also noted that Human rights are not commonly reported. Low level of human rights disclosure may be unnecessary for disclosure in companies' view. The sample companies are listed companies and presumably they are expected have high moral standards. Human rights disclosure, which seems basic moral standard for all business entities, is less concerned by report readers disclosed so that little disclosure in listed companies' annual reports appears.

Besides above comparison, Chinese development rate of reporting rose 66% from 2002 to 2006 (from 320 words to 531 words in Table 4.8), higher than Thailand's increasing rate of 40% from 1997 to 2001. The increasing number of voluntary disclosing companies is 49% (37 in 2002 and 52 in 2006), higher than the global G250 rate of 19% KMPG 2005 (64% in 2005 and 45% in 2002). In this sense, the development rate of CSR reporting in China is faster than the average level.

The KPMG 2005 report also reveals that the global reporting content is most commonly based on GRI (40%) and most companies refer to CSR international standards. In China (in 2006) there are only 5 of 67 companies which mentioned the CSR standards employed. There are only two companies indicating separate CSR reports information in annual reports. CSR reporting in China is still under development. A possible reason is the cost involved and managerial resources used (Jones & Solomon, 2006)

Twelve of the 67 sample companies (Table 4.4) explain the concept of CSR and strategic view and only two companies provided separate CSR reports in their annual reports for 2006. The KPMG 2005 survey found the G250 CSR report rate (separate and published as part of an annual report) is 64% in 2005, which is much higher than China.

Overall, the Chinese reporting themes are similar to global reporting themes. The Chinese reporting development is fast. However, the incidence of CSR is lower than the global average and CSR standards employed in China are not as common as those globally.

5.9 Implications for this study's results

A number of implications may be made from this research. The general picture derived from this study also stimulates some further research.

This study shows the general rules of CSR development over the world also apply in China. Some phenomena, such as increasing disclosing volume, recent rapid development trends, cross-industry disclosing effects, emphasising theme disclosing themes on employee and environmental issues and disclosing location, are similar to international findings. This implies that Chinese CSR is following the same direction as global CSR and more and more Chinese companies realise the importance of CSR and its disclosure in their annual reports.

The results show that China is not yet at the advanced level of CSR reporting compared to the rest of the world. Most Chinese companies are actually still just getting started on a learning process with CSR initiatives. It seems that different organisations are promoting CSR without sufficient coordination. CSR will become increasingly important in China because those initiatives undertaken by the government, economic organisations, and companies continue to gain momentum.

However, so far, the disclosing volumes in annual reports demonstrate the relatively low level of CSR status in China. Compared findings in other countries with the Chinese disclosing content in terms of quality and quantity, current Chinese CSR does not fit the needs of Chinese rapid economic development. This result is similar to Shan's (2007) finding.

The evidence shows that more governmental direction might be preferable. According to Clause 5 of China Company Act 2006, corporates must take social responsibility but no detailed guidelines are given. Chinese CSR status varies from company to company so more regulatory effort is preferable. At present, only employee composition and allowance provision are compulsory and more regulatory activities in other disclosure issues might be helpful to improve transparency. As the summary of e-discussion on CSR released jointly by United Nation and World Bank (2005) suggests, a mixture of voluntary and regulatory standards will make it more sustainable. With respect to Chinese unique culture and economic environment, development of Chinese own standards and accreditation criteria might be useful.

Further, companies could improve their disclosure methods and information dispersal. For example, Tsingtao Brewery Company Limited complies with the ISO9001, ISO 14001, OHSAS18001 and HACCP standards and has built up sound control systems for better product quality, environmental impact, sanitation and safety but this is not mentioned in its annual report. Disclosing such information would improve the company image and provide more a sustainable message to stakeholders. Moreover, there is considerable general interest in international standards, international symposia and seminars are being held frequently throughout the country, along with international institutions and European and American organisations.

Better CSR presentation in annual reports can improve the companies' disclosure quality and learning from more advanced countries companies would also be helpful. For instance, mainstream CSR disclosure in annual reports is by using a separate section in the report and this provides a much clearer emphasis. Most international companies do this (KMPG, 2005) but only three sampled Chinese companies in 2006 followed this method.

CSR disclosure complying with world-recognised standards and guidelines can present a comprehensive picture for report readers. Globally speaking, GRI and Global Compact and other programmes are universally very popular in advanced companies but few Chinese companies mention such standards in their annual reports.

In summary, progress in China CSR development is excellent but its status is still well below average global performance. Chinese companies recognise the importance of CSR but better disclosing methods would be helpful presenting their efforts to the public.

5.10 Limitations

Results of this study are subject to some limitations. First of all, this research examines only annual reports, the scope of which is doubted by Unerman (2000). He argues that

An exclusive focus on annual reports is likely to result in an incomplete picture of reporting practices. It also contributes further insights to the debate on measurement techniques, arguing that while measurement in sentences may be carried out with greater accuracy than measurement in proportions of a page, the former is likely to give less relevant results than the latter (p667).

Secondly, because of the limitation in data source, CSR information delivered by corporate media presentation, publications, CSR performance by branches of international companies in China are ignored, which is one part of the CSR reporting picture in China. This study assumes the annual report is the most effective means of communication between stakeholders and companies. In fact, companies can release CSR information via various media. Furthermore, there is sample issue. For instance, this study looks at only 67 sample companies and employs word counts under the guidelines of GRI. These are the volume of disclosures, which do not necessarily correctly reflect the level of corporate social concern. Finally, the difference between English and Chinese expression forms and habits cause limitation. Because of different linguistic styles, the meaning might be delivered by different words in the two languages.

5.11 Further Research

This study provides only the evidence on word counts and simple statistical tests on CSR disclosure in annual reports. Further research is necessary to investigate Chinese CSR reporting issues in more depth.

Regarding the research method, this study provides evidence based on content analysis. Another generally accepted method of studying CSR is reputational index. Reputational index method tends to be internally consistent because one evaluator is applying the same criteria to each firm and it makes no pretence of apply rigorous objective measure to a dimension that may be innately subjective as researcher must assign marks according to his impression. However, reputational index method enables research to investigate the relationships between CSR reporting and other variables expressly. Whether the results in these two kinds of studies on same objective for a certain population are consistent is interesting.

Furthermore, CSR and Chinese firms' characteristics (e.g., corporate governance, board composition, financial performance, asset capital and market value) are somehow related. These variables impact largely on managerial behaviour and decision-making. To this author's knowledge, there is no research measuring the relationship between CSR disclosing quantity (e.g. word counts) and these variables. Further research of content analysis of unit count (e.g. page, sentence and word counts) and these variables would bridge this gap.

Regarding the data collection methods, interview and survey are commonly used to collect data (e.g. Toms, 2002; Shan, 2007). Whether different data collection methods would vary the results for the same population over the same timeframe is a necessary for future study.

Most CSR research factors and variables which have been considered are company specific (Haniffa & Cook, 2005). It is important to consider the values, motives and preferences in companies' formulating policy and disclosing CSR information. With respect to Chinese unique culture, regulations and commonly held values, it would be expected that the CSR disclosure here might be different from other countries' CSR

reporting pattern. Such further studies would develop more insight in CSR reporting contribution.

Overall, this study provides only evidence on particular objectives using content analysis. Subject to the limitation of the scopes and research of this study, further researches are necessary to explore more CR phenomena and would contribute more to CSR understanding and applications.

5.12 Conclusion

This study adds substantial evidence to the existing Chinese CSR literature and presents an up-to-date picture of CSR status as it is the first content analysis for Chinese listed companies with respect to CSR disclosure. With the given objectives of examining the current CSR delivered via Chinese listed companies' annual reports, this study investigates the extent of CSR among 67 top listed 100 Chinese companies which were listed in both 2002 and 2006 and finds the trends in CSR over this four-year period. This indicates an overall trend towards increasing levels of corporate social disclosure. However, this research provides more evidence on lower disclosure status of Chinese companies when compared globally.

The disclosing themes and cross-industry disclosing differences are another theme of this study. It appears that, similar to the findings in other countries, the environmental and employee issues are the favoured reporting themes and the companies which are sensitive to public opinion are likely to disclose more CSR information. In this sense, the legitimacy theory applies. The features of the database enable the author to analyse the disclosure methods such as disclosing location and the form of content. Particularly, this study provides the first shareholding effect on CSR disclosure using a longitudinal approach. The results show that average CSR disclosure by the companies with a greater proportion of public or overseas shareholding is higher than other.

Clearly the CSR is a complex activity that cannot be fully explained by a single theoretical perspective or from a single level of resolution (Gray et al., 1995). The

reasons for poor CSR disclosure in China are many and varied. With respect to Chinese unique environment, further studies are necessary to provide more evidence.

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Abbreviation Table

AA 1000	Accountability 1000
CPC	Communist Party of China
CSP	Corporate social performance
CSR	Corporate social responsibility
CSRC	China Securities Regulatory Commission
ECGP	European Council's Green Paper
G250	Global Fortune 500
GRI	Global Reporting Initiative
IGC	Institute for Global Communication
IPCC	Intergovernmental Panel on Climate Change
MCC	Minister of Commerce of People's Republic of China
MOF	Minister of Finance
N100	Top 100 companies 16 countries
NDRC	National Development and Refgoorm Commission
NGO	Non-government organisation
NPC	National People's Congress
OECD	Organisation for Economic Co-operation and Development
ORSE	Observatoire sur la Responsabilité Sociétale des Entreprises
SA 8000	Social Accountability 8000
SEPA	State of Environmental Protection Administration
SRI	Social Responsibility Investment Forum
UN	United Nation
WBCSD	World Business Council for Sustainable Development
WCED	World Commission on Environment and Development

List of Sample Companies

	Listed ID	Company Name
1	000001	ShenZhen Development Bank Co.,Ltd
2	000002	China Vanke Co., Ltd
3	000022	Shenzhen Chiwan Wharf Holdings Ltd
4	000027	Shenzhen Energy Investment Co., Ltd.
5	000039	China International Marine Containers (Group) Co., Ltd
6	000063	ZTE Corporation
7	000069	Shenzhen Overseas Chinese Town Holding Company
8	000088	Shenzhen Yan Tian Port Holdings Co.,Ltd
9	000089	Shenzhen Airport co. Ltd
10	000539	Guangdong Electric Power Development Co., Ltd
11	000625	Chongqing Changan Automobile Co Ltd
12	000629	Panzhuhua New Steel & Vanadium Co., Ltd
13	000651	Gree Electric Appliances. Inc. of Zhuhai
14	000709	Tangshan Iron and Steel Co., Ltd
15	000800	Faw Car Co. Ltd
16	000825	Shanxi Taigang Stainless Steel Co. Ltd
17	000858	Wuliangye Yibin Co. Ltd
18	000895	Henan Shuanghui Investment & Development Co. Ltd
19	000898	Angang Steel Company Limited
20	000932	HunanValin Steel Tube & Wire Co. Ltd
21	000959	Beijing Shougang Co. Ltd
22	000983	Shanxi Xishan Coal and Electricity Power Co. Ltd
23	600000	Shanghai Pudong Development Bank Co. Ltd
24	600001	Handan Iron & Steel Co. Ltd
25	600005	Wuhan Iron and Steel Company Limited
26	600006	Dongfeng Automobile Co. Ltd
27	600008	Beijing Capital Co. Ltd
28	600009	Shanghai International Airport Co.Ltd.
29	600010	Inner Mongolian BaoTou Steel Union Co.Ltd
30	600011	Huangneng Power International Inc.
31	600012	Anhui Expressway Co Ltd
32	600016	China Minsheng Banking Corp Ltd
33	600019	Baoshan Iron &Steel Co. Ltd
34	600026	China Shipping Development Co Ltd
35	600028	China Petroleum & Chemical Corporation
36	600033	Fujian Expressway Development Co.Ltd
37	600036	China Merchants Bank Co. Ltd
38	600050	China United Telecommunications Corporation Limited
39	600058	Minmetals Development Co. Ltd
40	600085	Beijing Tongrentand Co Ltd

41	600098	Guangzhou Development Industry (Holdings) Co.Ltd
42	600104	Shanghai Automotive Co.Ltd
43	600177	Youngor Group Co.Ltd
44	600188	Yanzhou Coal Mining Co Ltd
45	600236	Guangxi Guiguan Electric Power Co. Ltd
46	600269	Jiangxi Ganyue Expressway Co. Ltd
47	600270	Sinotrans Air Transportation Development Co. Ltd
48	600350	Shandong Expressway Co. Ltd
49	600377	Jiangsu Expressway Co Ltd
50	600500	SinoChem International Corp
51	600519	Kweichow Moutai Co. Ltd
52	600548	Shenzhen Expressway Co Ltd
53	600569	AnYang Iron & Steel Inc
54	600585	Anhui Conch Cement Co Ltd
55	600597	Bright Dairy & Food Co.Ltd
56	600597	Heilongjiang Agriculture Co Ltd
57	600600	Tsingtao Brewery Co Ltd
58	600642	Shenergy Company Ltd
59	600649	Shanghai Unicipal Raw Water Co Ltd
60	600663	Lujiazui Finance & Trade Zone Development Co Ltd
61	600688	Sinopec Shanghai Petrochemical Co Ltd
62	600690	QingDao Haier Co. Ltd
63	600717	Tianjin Port Holding Co Ltd
64	600795	GD Power Development Co. Ltd
65	600808	Maanshan Iron & Steel Co Ltd
66	600832	Shanghai Oriental Pearl (Group) Co. Ltd
67	600863	Inner Mongolia MengDian HuaNeng Thermal