

# One Dream, Two Worlds: Corporate Social Responsibility (CSR) in the People's Republic of China

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*This article investigates how corporate social responsibility (CSR) is operated in China with a particular focus on the role of the government. It finds that CSR in China is implemented through two big networks: one for foreign invested enterprises, mostly consisting of voluntary initiatives targeting Chinese domestic consumers, and the other of domestic state-owned enterprises (SOEs), implementing non-voluntary, government-driven initiatives mostly targeting foreign markets. The role of the government is especially critical in the latter network. The government has developed a national strategy to encourage SOEs to promote CSR by issuing guidelines, providing various kinds of support for research and conventions, and developing China's own reporting standards in certain industries. Government intervention has resulted in the creation of two separate worlds of CSR and a Chinese version of government-led CSR in which the role of civil actors such as nongovernmental organizations is seriously limited.*

**KEYWORDS:** corporate social responsibility; China; government; state-owned enterprises; network.

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In September 2008, a leading Chinese dairy company, Sanlu (三鹿), admitted that some of its baby formula manufactured earlier that year was contaminated with the chemical melamine. At least six infants died as a result in that year and more than three hundred thousand babies who drank the formula suffered from kidney stones and renal failure. Sanlu, a majority state-owned joint venture with a New Zealand dairy cooperative, had been exempted from government food safety inspections since December 2005 because the formula was certified as an inspection-exempt product for three years by the General Administration for Quality Supervision, Inspection, and Quarantine (AQSIQ), just as were the products of other Chinese dairy companies. The incident points to chronic problems of corrupt and ineffective regulatory systems in the country, but according to one China specialist, it also indicates a deeper and more fundamental challenge: how China's systemic lack of business ethics will hurt the Chinese economy, especially its export sector if it is not tackled.<sup>1</sup>

The incident is only one of a series of scandals regarding food and product safety that has afflicted China in the past few years. The Chinese government has repeatedly announced that it intends to strengthen inspections and regulations in order to protect the interests of the general public as well as the national image and the "made in China" label. It said that it was planning to spend US\$1.1 billion on improving food and drug safety supervision by 2010 and even issued a white paper on food safety in 2007. In spite of these efforts, however, scandals have continued to occur and product recalls to be announced. Experts are pessimistic about immediate change because the regulatory cost is too high, simply due to the huge number of factories that regulators would have to monitor.<sup>2</sup>

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<sup>1</sup>Peter Ford, "Behind Bad Baby Milk, an Ethical Gap in China's Business," *Christian Science Monitor*, September 17, 2008, <http://www.csmonitor.com/2008/0917/p01s03-woap.html> (accessed August 8, 2010); Bob Kilbom, "Judges in China Handed out Death Sentences," *Christian Science Monitor*, January 22, 2009, <http://www.csmonitor.com/World/Global-News/2009/0122/international-news-s-roundup-jan-22> (accessed August 8, 2010).

<sup>2</sup>David Barboza, "China Steps up Efforts to Cleanse Reputation," *The New York Times*,

While a tainted national image and loss of international consumer trust might take some time to restore, it is also true that both domestic and foreign companies in China have become sensitive to demands from their consumers for good business practice and are more aware of the need to integrate social and environmental concerns into their business operations. Although it is still in its infancy, corporate social responsibility (CSR) is becoming a big concern in China. Some domestic as well as foreign companies have devised CSR strategies and begun to implement CSR programs covering areas such as community outreach, health and safety, and environmental protection. The number of companies in China participating in CSR reporting activities is increasing, and large domestic enterprises such as the Industrial and Commercial Bank of China (ICBC) and Lenovo have released annual CSR reports to publicize their performance in this field. The Chinese government's attitude toward CSR is generally positive because voluntary action by companies is seen as reducing the need for costly government regulation. Moreover, through CSR, foreign invested enterprises (FIEs)<sup>3</sup> can contribute to the social and environmental aspects of China's sustainable development, and domestic companies can use the perceived enhancement of their business ethics to gain more access to foreign markets. For these reasons, the Chinese government has taken positive measures to promote CSR and has encouraged companies to be more actively engaged in it.

This article investigates how CSR is working in China, with a particular focus on the role of the government in promoting CSR. It sets out to explore the overall architecture of CSR in the country, to introduce the various actors who are involved in the practice, and to look at the relationships between them. It finds that CSR in China is implemented through two big networks: one consisting of FIEs, undertaking mostly voluntary initiatives that target Chinese domestic consumers, and the other consisting of Chi-

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September 5, 2007, [http://www.nytimes.com/2007/09/05/business/05counter.html?\\_r=1](http://www.nytimes.com/2007/09/05/business/05counter.html?_r=1) (accessed August 8, 2010).

<sup>3</sup>Foreign invested enterprises include both wholly foreign-owned enterprises and joint ventures.

nese state-owned enterprises (SOEs) undertaking non-voluntary, government-driven initiatives that mostly target foreign markets. To date, there has been very little interaction between these two networks, which, in many cases use different reporting standards, cultivate different norms and institutions, and focus on different priorities. Therefore, even though they have common goals, that is, to make companies responsible to their stakeholders in their various activities, to establish codes of ethics, and eventually to become more competitive in the market, the main CSR actors in China—companies, government agencies, nongovernmental organizations (NGOs), international organizations, service providers, media organizations, academia, and individual specialists—are divided between two different groups which act independently. It is particularly among SOEs where the government plays a significant role.

The coexistence of two separate worlds of CSR in China indicates that the global diffusion of CSR norms and practices might be uneven throughout the world, especially between developed and developing countries, and presumably even within developing countries. The factors causing this uneven diffusion could differ from country to country, and, in the case of China, the biggest factor is the government's intervention in the market incentive voluntary scheme. Taken as a whole, we can assume that how CSR is working, and even how CSR is defined, differs from country to country.<sup>4</sup> In spite of this global divergence, however, empirical case studies—either single-country or comparative case studies—illustrating the national differences in CSR practice are rare in the literature,<sup>5</sup> especial-

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<sup>4</sup>Michael Blowfield and Jędrzej George Frynas, "Setting New Agendas: Critical Perspectives on Corporate Social Responsibility in the Developing World," *International Affairs* 81, no. 3 (June 2005): 500-4.

<sup>5</sup>Some examples of case studies are Peter Newell, "Citizenship, Accountability and Community: The Limits of the CSR Agenda," *International Affairs* 81, no. 3 (June 2005): 541-57; Lars H. Gulbrandsen and Arild Moe, "BP in Azerbaijan: A Test Case of the Potential and Limits of the CSR Agenda?" *Third World Quarterly* 28, no. 4 (June 2007): 813-30; C. Christopher Baughn, Nancy L. Bodie, and John C. McIntosh, "Corporate Social and Environmental Responsibility in Asian Countries and Other Geographical Regions," *Corporate Social Responsibility and Environmental Management* 14, no. 4 (September 2007): 189-205; Uwafiokun Idemudia and Uwem E. Ite, "Corporate-Community Relations in Nigeria's Oil Industry: Challenges and Imperatives," *Corporate Social Responsibility and Environmental Management* 13, no. 4 (September 2006): 194-206.

ly where China is concerned.<sup>6</sup> This article attempts to fill this gap by exploring the case of China. It examines how the outside influence of CSR initiatives has led government decision makers to create a domestic version of a CSR network, and how this has brought into being two parallel worlds of CSR in a single country. It also indicates that one of the underlying reasons for this is the strength of government intervention in the market as a whole and the relative weakness of civil society.

### Theoretical Discussion

The origins and development of CSR lie in a series of systematic debates on the role of the corporation in society led by a group of leading voices in the United States and Western Europe. Early in this debate, a group of arguments was raised to criticize the way CSR was conceptualized and defined. For example, Milton Friedman argued that corporate social responsibility actions were not CSR but merely profit maximization carried out for reasons of self-interest. He also pointed out that social issues and problems were the job of government, not of corporate managers.<sup>7</sup> However, the arguments against CSR have contributed to the more systematic

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<sup>6</sup>Some examples are Yong Han and Yochanan Altman, "Supervisor and Subordinate Guanxi: A Grounded Investigation in the People's Republic of China," *Journal of Business Ethics* 88, no. 1 (April 2009): 91-104; Liangrong Zu and Lina Song, "Determinants of Managerial Values on Corporate Social Responsibility: Evidence from China," *Journal of Business Ethics*, no. 88 (2009): 105-17; Bala Ramasamy and Mathew Yeung, "Chinese Consumers' Perception of Corporate Social Responsibility (CSR)," *Journal of Business Ethics* 88, no. 1 (April 2009): 119-32; Lu Tang and Hongmei Li, "Corporate Social Responsibility Communication of Chinese and Global Corporations in China," *Public Relations Review* 35, no. 3 (September 2009): 199-212; Yu Xiaomin, "Kuaguo gongsi xingwei shouze yu Zhongguo waizi qiye laogong biao zhun" (Transnational corporations' code of conduct and labor standards in China's foreign invested enterprises), *Shehuixue yanjiu* (Sociological Studies) (Beijing), no. 131 (2007): 111-32; Zhao Lianrong, "Woguo qiye shehui zeren de yanbian yu qushi" (Changes and prospects for China's corporate social responsibility), *Qiye gaige yu guanli* (Enterprise Reform and Management) (Beijing), no. 2 (February 2005): 7-8. Most of these works are firm-level analyses of CSR perceptions and communication; they do not focus on the role of the government in CSR promotion in China.

<sup>7</sup>Milton Friedman, "The Social Responsibility of Business Is to Increase Its Profits," *The New York Times Magazine*, September 13, 1970.

discussions concerning what motivates firms to engage in CSR and as a consequence many important CSR-related concepts and theories have been produced, such as Carroll's four-part model, Freeman's stakeholder theory, and Elkington's triple bottom line.<sup>8</sup>

Carroll's four-part model is perhaps one of the most widely accepted conceptual frameworks for understanding CSR. Carroll regards CSR as a multilayered concept, which is composed of four different corporate responsibilities: economic, legal, ethical, and philanthropic. He presents these four responsibilities in the shape of a pyramid and argues that CSR requires action on all four levels.<sup>9</sup> In Freeman's opinion, corporations should not simply consider the interests of their shareholders but should also take the rights and interests of a wider group of actors into account. This larger group, termed "stakeholders," includes consumers, employees, civil society pressure groups, suppliers, shareholders, and even government, and all these stakeholders have a legitimate interest in the corporation.<sup>10</sup> Elkington argues that business does not have just one single goal but it has an extended goal set that includes social and environmental values. Therefore, the concept of sustainability has been broadened to include economic, social, and environmental considerations.<sup>11</sup>

The term CSR has been used in many different ways and the way it is defined has changed over time. In this article, I adopt a broad definition which includes both voluntary and mandatory aspects of CSR in order to demonstrate that both mechanisms of CSR can coexist within one nation. Blowfield and Frynas argue that many voluntary initiatives also have a mandatory aspect, indicating how there are intersections between CSR and

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<sup>8</sup>Dirk Matten, "Why Do Companies Engage in Corporate Social Responsibility? Background, Reasons and Basic Concepts," in *The ICCA Handbook on Corporate Social Responsibility*, ed. Judith Hennigfeld, Manfred Pohl, and Nick Tolhurst (Chichester: John Wiley & Sons, 2006): 3-46.

<sup>9</sup>Archie Carroll, "A Three-Dimensional Conceptual Model of Corporate Performance," *Academy of Management Review* 4, no. 4 (October 1979): 497-505.

<sup>10</sup>Edward Freedman, *Strategic Management: A Stakeholder Approach* (Boston, Mass.: Pitman, 1984).

<sup>11</sup>John Elkington, *Cannibals with Forks: The Triple Bottom Line of 21st Century Business* (Oxford: Capstone, 1998).

the law in many countries, and therefore voluntarism might not be the lowest common denominator of CSR. Accordingly, they insist that

it may be more useful to think of CSR as an umbrella term for a variety of theories and practices all of which recognize the following: (a) that companies have a responsibility for their impact on society and the natural environment, sometimes beyond legal compliance and the liability of individuals; (b) that companies have a responsibility for the behavior of others with whom they do business (e.g. within supply chains); and (c) that business needs to manage its relationship with wider society, whether for reasons of commercial viability or to add value to society.<sup>12</sup>

This broad definition is a conceptual foundation on which empirical case studies on CSR, especially those concerning developing countries, are possible. As Prieto-Carron et al. explain it, the distinction between companies' voluntary and mandatory action is sometimes unclear in developing countries.<sup>13</sup> In the case of China, however, as I will show below, the distinction is relatively clear in the sense that CSR is not voluntary for SOEs, even though there are certainly some voluntary aspects in SOEs' CSR activities, and CSR is for the most part voluntary for FIEs.

CSR has been studied from many different angles in many different disciplines.<sup>14</sup> At the most micro level, CSR research involves a firm-level analysis of, for instance, the impact of CSR on the company's short-term and long-term profitability. At the macro level, in contrast, CSR is seen as part of the global governance system in which companies, together with other relevant actors, participate in managing global issues such as poverty reduction, human rights, and sustainable development.<sup>15</sup> From this per-

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<sup>12</sup>Blowfield and Frynas, "Setting New Agendas," 503.

<sup>13</sup>Marina Prieto-Carron et al., "Critical Perspectives on CSR and Development: What We Know, What We Don't Know, and What We Need to Know," *International Affairs* 82, no. 5 (September 2006): 978.

<sup>14</sup>For general information on CSR research, see Frank G. A. DeBakker, Peter Groenewegen, and Frank Den Hond, "A Bibliometric Analysis of 30 Years of Research and Theory on Corporate Social Responsibility and Corporate Social Performance," *Business & Society* 44, no. 3 (September 2005): 283-317; Matten, "Why Do Companies Engage in Corporate Social Responsibility?" 3-46.

<sup>15</sup>See Frederick Bird and Manuel Velasquez, eds., *Just Business Practices in a Diverse and Developing World—Essays on International Business and Global Responsibilities* (New York: Palgrave Macmillan, 2006).

spective, the actions of individual companies in taking responsibility within a particular country are globally interconnected via CSR networks which take the form of association and convening (e.g., World Business Council on Sustainable Development); partnership (e.g., NGO-firm partnerships such as Levi-Strauss and the Asia Foundation for migrant workers in China); code-making, monitoring, and reporting (e.g., Social Accountability 8000, Global Reporting Initiative); and so on.<sup>16</sup> This perspective has gained support especially as economic globalization has proceeded and the number of multinational corporations operating in developing countries has increased. Therefore, CSR is often discussed in the context of the broader debate on the impact of economic globalization on developing countries. The role of CSR in promoting economic development, sustainable development, and poverty reduction in the developing countries has become a critical item on the agenda of the CSR debate.<sup>17</sup>

In general, it can be said that the range of CSR initiatives found in developed countries today has not been paralleled by similar intense interest/activity in the developing countries.<sup>18</sup> However, this does not necessarily mean that CSR activities in all the developing countries are equally weak and less effective. Indeed, we know very little about the impact of CSR initiatives in developing countries,<sup>19</sup> so further research on CSR focusing on individual developing countries is required in order to systematically compare and contrast various aspects of CSR in developing countries with those in the developed world.<sup>20</sup> How CSR is conceptualized and practiced in dif-

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<sup>16</sup>Matthew J. Hirschland, *Corporate Social Responsibility and the Shaping of Global Public Policy* (New York: Palgrave MacMillan, 2006), 8-11.

<sup>17</sup>Examples of these discussions can be found in Peter Utting, "CSR and Equality," *Third World Quarterly* 28, no. 4 (June 2007): 697-712, and Michael Blowfield, "Reasons to Be Cheerful? What We Know about CSR's Impact," *Third World Quarterly* 28, no. 4 (June 2007): 683-95.

<sup>18</sup>Dima Jamali, "The Case for Strategic Corporate Social Responsibility in Developing Countries," *Business and Society Review* 112, no. 1 (March 2007): 2.

<sup>19</sup>Blowfield and Frynas, "Setting New Agendas," 506.

<sup>20</sup>Some examples of existing literature on CSR in individual developing countries include David Fig, "Questioning CSR in the Brazilian Atlantic Forest: The Case of Aracruz Celulose SA," *Third World Quarterly* 28, no. 4 (June 2007): 831-49; Kenneth M. Amaeshi et al., "Corporate Social Responsibility in Nigeria—Western Mimicry or Indigenous Influences?"



ferent countries is indeed affected by the cultural and social context.<sup>21</sup> Whereas scholars have pointed to cultural differences—especially those between Western and non-Western cultures—in order to explain differences in the definition and practice of CSR,<sup>22</sup> an aspect that has received less attention is that of political differences, in terms of political systems, state-society relations, and national development strategies for coping with globalization. China, as a case, shows how strong government initiative, combined with a weak civil society and NGO participation in a nondemocratic political setting, produces a certain form of CSR architecture that is different from the typical Western version. It indicates that in addition to cultural and social differences, political and institutional factors could be sources of global CSR divergence.

### **The Case of China—Historical Overview**

CSR was first introduced into China around the mid-1990s, primarily by multinational corporations based in developed countries. These corporations were seeking to establish their corporate codes of conduct in China and were requiring Chinese enterprises in their supply chain to meet the same (or similar) codes of conduct. Some Chinese factories, especially in

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*Journal of Corporate Citizenship*, no. 24 (December 2006): 83-99; Karen Paul et al., "Corporate Social Reporting in Mexico," *Journal of Corporate Citizenship*, no. 22 (April 2006): 67-80; Norhayah Zulkipli and Azlan Amran, "Realizing Corporate Social Responsibility in Malaysia—A View from the Accounting Profession," *Journal of Corporate Citizenship*, no. 24 (December 2006): 101-14.

<sup>21</sup>Wendy Chapple and Jeremy Moon, "Corporate Social Responsibility (CSR) in Asia: A Seven Country Study of CSR Website Reporting," *Business and Society* 44, no. 4 (December 2005): 115-36.

<sup>22</sup>Examples include Christine Phoon-Lee, "Corporate Social Responsibility and 'Putting People First' from a Chinese Cultural Perspective," *Journal of Corporate Citizenship*, no. 22 (April 2006): 23-25; Jacqueline Cramer, *Corporate Social Responsibility and Globalization—An Action Plan for Business* (Sheffield: Greenleaf, 2006), chapter 4; Henri-Claude de Bettignies and Cheon Kheong Tan, "Values and Management Education in China," *International Management Review* 3, no. 1 (January 2007): 17-37; David Kimber and Phillip Lipton, "Corporate Governance and Business Ethics in the Asia-Pacific Region," *Business & Society* 44, no. 2 (June 2005): 178-210.

the manufacturing industry, accepted factory auditing by the multinational corporations and they thereby became one of the first groups in China to practice CSR. From the beginning of the twenty-first century to 2004, the concept of CSR became more popular in China through the efforts of Chinese academics, central and local governments, and international organizations and NGOs to explore various possibilities for CSR conceptualization and practice in the country. Universities and research institutes, various government departments, business associations, and other specialist groups, both inside and outside China, organized conferences, forums, and committees, and conducted feasibility studies and pilot projects on CSR in China. However, the overall attitude of the Chinese government and enterprises towards CSR was still passive and suspicious during this period. They saw CSR largely as a trade barrier preventing the export of Chinese goods to Western markets. Some Chinese media organizations took a typical patriotic stance, insisting that the United States and the European Union were trying to demonize China as the world's sweatshop because they feared China's growing power in international society.<sup>23</sup>

It was only after President Hu Jintao (胡锦涛) issued his call in 2005 for the creation of a "harmonious society" that the Chinese government and corporations began to actively promote CSR, as that call signaled a significant change in the policy direction of the government from straightforward economic growth to pursuit of overall societal balance and harmony and consideration for the quality of growth. This slogan, promulgated by the country's top leadership as a strong expression of their determination to tackle the gap between rich and poor, the inadequate system of social security, and environmental degradation, provided a favorable political environment for the promotion of CSR in China.<sup>24</sup> In addition to this political

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<sup>23</sup>He Qinglian, "Why is CSR Such an Uphill Battle in China?" *China Rights Forum*, no. 1 (2007): 69-70; Anita Chan, "China Says No to Developed Countries' Corporate Social Responsibility," *International Union Rights* 12, no. 1 (2005): 18-19.

<sup>24</sup>Interview with a government official in Beijing, 2009. I conducted a series of interviews with government officials, CSR specialists in universities and research institutes, service provider company executives, Chinese and foreign NGOs, and CSR-related associations and institutions in Beijing, China, from January 3 to January 24, 2009.

support for CSR, government decision makers and Chinese scholars began to realize the importance of CSR to the competitiveness of Chinese enterprises in the global market. They called CSR "a passport to the Western market," and subsequently some major state-owned enterprises began to issue their own CSR reports.<sup>25</sup>

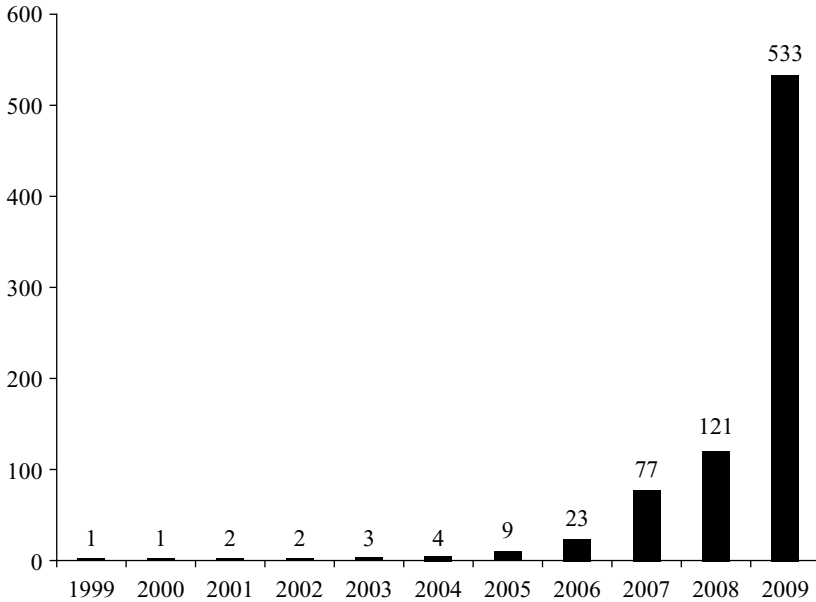
The most recent incident to boost the momentum of CSR in China was the Sichuan earthquake of May 2008. The massive earthquake, registering 7.9 on the Richter scale, killed seventy thousand people and left over five million homeless, and at the same time changed the landscape of CSR in China as the scale and timeliness of the aid response by both domestic and foreign corporations crafted Chinese people's attitudes toward these companies to an unexpected degree.<sup>26</sup> Companies were seriously affected by Internet word-of-mouth, both positively and negatively, depending on how quickly and how well they acted to help the victims. Of course it was true that this public response was at least partially fueled by feelings of nationalism, but the disaster also gave both Chinese and foreign companies a lesson that their CSR activities and public relations could be a critical factor in their business in China.

CSR in China consists of three key categories of actions: community outreach, such as building schools and hospitals; education, environment, and health and safety, such as meeting (or even exceeding) local safety standards; and environmental protection, such as pollution abatement activities. These activities usually become public as companies issue their CSR reports on a regular basis. Therefore, reporting is often one of the indicators used to quantify the CSR activities of companies. The number of

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<sup>25</sup>Interview with a government official in Beijing, 2009. As government officials and business leaders grew more aware of CSR in China, academic works introducing and discussing the theory of CSR began to be published there. Some examples are Li Zhonghua and Zhu Yan, *Sanchong jixian: 21shiji qiye ke chixu fazhan jiema* (Triple bottom line: decoding 21st century corporate sustainable development) (Beijing: Jixie gongye chubanshe, 2007); and Zhong Hongwu, *Cishan juanzeng yu qiye jixiao* (Philanthropic donation and corporate performance) (Beijing: Jingji guanli chubanshe, 2007).

<sup>26</sup>Ariel McGinnis et al., "The Sichuan Earthquake and the Changing Landscape of CSR in China," *Knowledge@Wharton*, April 20, 2009, <http://www.knowledgeatwharton.com.cn/index.cfm?fa=printArticle&articleID=2052&languageid=1> (accessed August 8, 2010).

**Figure 1****The Number of CSR Reports by Enterprises in China, 1999-2009**

Source: An, *Jiazhi faxian zhi lü* 2009.

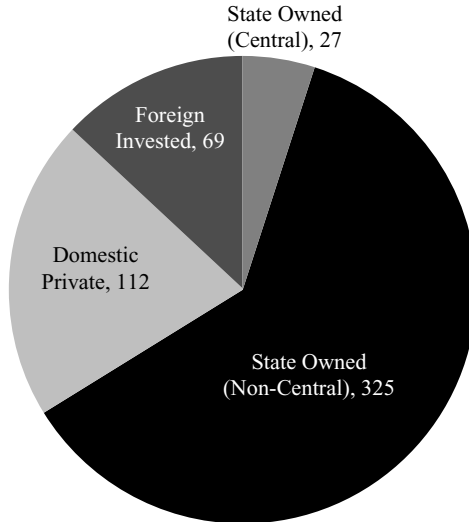
CSR reports issued by enterprises in China has increased rapidly, especially during the period 2006-2009 (see figure 1). In 2009, a total of 533 CSR reports were filed, of which 352 were from SOEs (including 27 central enterprises),<sup>27</sup> 112 were from Chinese private enterprises, and 69 from foreign enterprises including both wholly foreign-owned firms and joint ventures (see figure 2).<sup>28</sup> So more than 80 percent of these reports came from Chi-

<sup>27</sup>Central enterprises (*zhongyang qiye*, 中央企業) are large-scale SOEs created and/or directly supervised by the State Council. As of September 2009, there were about 140 of these in China.

<sup>28</sup>These include corporate sustainability reports, corporate environmental reports, and corporate citizenship reports. See An Jiali, *Jiazhi faxian zhi lü* 2009—*Zhongguo qiye kechixufazhan baogao yanjiu* (A journey to discover values 2009—study of sustainability reporting in China) (Beijing: SynTao, 2009), 7, <http://www.syntao.com> (assessed August 8, 2010).

**Figure 2**

**The Number of CSR Reports in China (2009), by Ownership Type**



**Source:** An, *Jiazhi faxian zhi lü* 2009.

nese companies, with SOEs being much more involved in CSR reporting than private enterprises. This demonstrates that the government has played a significant role in promoting CSR in China.

CSR is booming in China now. Every week, there are two or three major CSR and/or sustainability conferences or forums taking place either in Beijing or in other provinces and cities around the country. Most of these events are organized by the central or local governments or government-related agencies and affiliated institutions.<sup>29</sup> Also, the overseas CSR practices of Chinese multinational corporations have become a critical issue as environmental damage and social instability resulting from their exploitation of natural resources has become a problem, especially in Africa. Therefore, Chinese leaders have begun to stress the importance of developing

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<sup>29</sup>Interview with a China CSR specialist in Beijing, 2009.

responsible overseas investments. President Hu Jintao has noted that Chinese enterprises in Africa should practice corporate social responsibility in order to promote the long-term development of Sino-African relations.<sup>30</sup> All in all, CSR has developed rapidly in China over the last couple of years.

### **The Role of the Government**

The role of governments—both central and local—in promoting CSR in China has been consistently crucial from the time of its introduction right through to today. Early on, the central government directed universities, government-affiliated research institutes, and local governments to carry out research projects on the feasibility of CSR and to organize various events to discuss and promote CSR in China. It also attempted to develop China's own reporting standards, such as China Social Compliance 9000 for the Textile and Apparel Industry (CSC 9000T), and Chinese codes of conduct, such as SA8000. Various government agencies and departments, including the State Asset Supervision and Administration Commission (SASAC), the China Banking Regulatory Commission, the Shanghai Stock Exchange Office, and the Ministry of Commerce, have issued guidelines and directions to encourage companies to take action on CSR, most of which were published between 2006 and 2008. CSR research centers were established in many universities and research institutes. For example, the CSR research center at Beijing University Law School was established in 2006, and a similar center under the Chinese Academy of Social Sciences (CASS) was established in 2008. Finally, the central government issued new laws, such as the Labor Contract Law which came into force in 2008, or revised existing laws, such as the Corporate Law, in order to include some key aspects of CSR. In sum, the central and local governments and their affiliated institutions have been the major drivers of CSR in China.

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<sup>30</sup>Chloe Yang, "Corporate Social Responsibility and China's Overseas Extractive Industry Operations: Achieving Sustainable Natural Resource Extraction" (Issue Brief, Foundation for Environmental Security & Sustainability, August 2008), 10.

Among the measures listed above, the two most important are the establishment of CSC 9000T in 2005 and the issuing of the SASAC guidelines in 2008. I will focus on these below.

CSC 9000T is the code of conduct system for CSR activities in the textile and apparel industry, developed by the Chinese industrial sector. The system was developed by the Responsible Supply Chain Association (RSCA), under the China National Textile and Apparel Council (CNTAC), in 2005. It was typical of the nationalistic response to the Western notion of CSR in the early period of the introduction of CSR in China. As I mentioned above, Chinese government officials and a majority of scholars viewed the foreign imposition of CSR in China as a form of trade barrier, a strategy adopted by Western companies to slow down China's development. Rejecting existing codes of conduct and reporting standards used by the West, the Chinese government decided to create Chinese-style CSR management systems and reporting standards based on China's existing social, political, and legal conditions. It argued that some Western standards ran counter to existing Chinese laws, such as those regarding human rights, and that local context should be taken into consideration in the promotion of CSR, especially in developing countries. CSC 9000T is therefore the product of a compromise between the demands of multinational corporations and the Chinese government's wish to create CSR codes of conduct with "Chinese characteristics" based on existing domestic laws and regulations.

CSC 9000T includes specific guidelines on ten critical issues: management systems, labor contracts, prohibition of child labor, forced labor, working hours, income and social welfare, trade unions and collective agreements, discrimination, harassment and ill-treatment in the workplace, and health and safety in the workplace. All these issues are covered by Western systems such as SA8000, but the actual standards and specific directions on each issue are primarily based on Chinese domestic laws and regulations. By 2006, around 140 companies had adopted CSC 9000T standards, and that number had increased to about 300 by 2008.<sup>31</sup> Accord-

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<sup>31</sup>It should be noted that adopting the standards does not necessarily mean that companies

ing to one Chinese CSR specialist, the development of CSC 9000T was at first just a reaction to fight the Western conspiracy to slow down China's economic development. However, it soon became a national strategy for developing China's own counter-standards to cope with Western standards because government officials and scholars recognized that if CSR was inevitable, it would be better, from a long-term perspective, to develop China's own stand-ards. When the first attempt to develop CSC 9000T turned out to be relatively successful, some other industrial sectors, such as the financial sector and the pharmaceutical industry, developed their own CSR reporting standards. It is true that international standards such as SA8000, Global Reporting Initiative, and Global Compact are widely used in China, but at the same time, the government prefers to develop its own reporting standards which will hopefully be widely recognized by foreign companies in the future. However, at the moment, it is not a competition between standards, but more like the coexistence of two compatible standards because CSR should be practiced in each country according to its own national context.<sup>32</sup>

The national strategy to develop a "CSR system with Chinese characteristics" has been further accelerated since the State Asset Supervision and Administration Commission (SASAC), the government organization directly under the State Council that manages SOEs, issued the Guidelines for State-owned Enterprises' Performing their Social Responsibilities (SASAC Guideline hereafter) in 2008. These guidelines encourage SOEs, especially the 140 global-scale, profitable, and therefore politically important central enterprises, to actively participate in CSR activities, emphasizing that CSR implementation is the best way of constructing a harmonious society and achieving sustainable development in China. The document

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take them seriously and use them to implement their CSR activities effectively. Empirical survey research is needed to investigate whether SOE managers actually think CSC 9000T is an effective tool for their CSR activities. However, what this paper focuses on is the fact that the Chinese government created these standards as part of a national strategy to develop "CSR with Chinese characteristics," and that the SOEs adopted them because they were vigorously promoted by the government. The role of the government eventually made it possible to create two separate networks of CSR in China.

<sup>32</sup>Interview with a Chinese CSR specialist in Beijing, 2009.



contains several key suggestions for SOEs regarding their CSR activities, such as raising awareness of CSR within corporations, combining CSR with corporate governance and strategy, establishing a CSR reporting mechanism and publishing CSR reports on a regular basis, studying best practice and the successful experiences of foreign companies in implementing CSR, and strengthening the leadership of the Communist Party over the promotion of CSR in corporations. It also lists eight major focal points for CSR implementation, including complying with laws and regulations, moral standards, business ethics, and industrial regulations; conducting business honestly; improving sustainable profitability; improving the quality of products and services; actively participating in social and community activities including donations and philanthropy.<sup>33</sup>

The SASAC Guidelines are not an instruction manual but rather a document conveying to SOEs the critical political message that CSR should be a pivotal part of their strategy, not just for the sake of their own businesses but for reasons of national interest. Since SASAC controls SOEs by, for example, appointing top executives, approving mergers or sales of stock or assets, and drafting laws and regulations relating to SOEs, the guidelines are in effect a powerful signal to the major SOEs that they should consider CSR as mandatory. After the SASAC Guidelines were issued in January 2008, the number of CSR reports published increased dramatically: 121 reports in 2008 alone, compared to 122 between 1999 and 2007 (see figure 1).

After the SASAC document was issued, other government organizations followed suit in 2008 and 2009. For example, the China Banking Regulatory Commission (CBRC) in Shanghai issued guidelines to banks in Shanghai requiring them to produce and release annual CSR reports; the Shanghai Stock Exchange also issued guidelines for the production and release of annual sustainability reports by listed companies; the China National Textile and Apparel Council (CNTAC) released the China Sustainability Reporting Guidelines for Apparel and Textile Enterprises; and the

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<sup>33</sup>The text of these guidelines in Chinese is at [http://news.xinhuanet.com/fortune/2008-01/04/content\\_7364753.htm](http://news.xinhuanet.com/fortune/2008-01/04/content_7364753.htm) (accessed August 8, 2010).

China Banking Association published Guidelines on CSR for Banking Financial Institutions in China. Also, there is evidence that enthusiastic promotion of CSR by local governments has made a difference. According to a report analyzing CSR in China, the provinces of Liaoning (遼寧) and Fujian (福建) are among the top five provincial-level areas in terms of CSR reporting in spite of the fact that their income level is low compared to the other three top provinces—Beijing, Guangdong, and Shanghai. This can be attributed to the serious efforts made by two local government agencies—the Dalian Environmental Protection Bureau and the Fujian Securities Supervisory Bureau—in promoting CSR.<sup>34</sup> As a result of local government involvement, the number of CSR reports more than quadrupled during the period 2008-2009 (see figure 1).

China is not the only country where the government plays a role in CSR. There is evidence that governments facilitate CSR in many developed countries. Although CSR is basically a self-regulatory initiative, the role of the government—and partnership between government and private actors—makes CSR activities more effective.<sup>35</sup> However, China might be the only country where the government is the biggest stakeholder in CSR. In one sense, this is not surprising because China still has a weak civil society and a relatively strong authoritarian state. Private actors such as NGOs are tightly controlled by the government and therefore enjoy less autonomy than their counterparts in developed countries. Moreover, as a developing country, the decision whether or not to accept foreign schemes is usually a matter for the government in China, even though these schemes are voluntary. This is because, in many cases, these schemes are crucial to China's national interests and also because the government can easily control the major SOEs. Therefore, it can be said that China's domestic political conditions are the background factors influencing government in-

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<sup>34</sup>Guo Peiyuan et al., *Jiazhi faxian zhi li 2008—Zhongguo qiye ke chixu fazhan baogao yanjiu* (A journey to discover values 2008: study of sustainability reporting in China) (Beijing: SynTao, 2008), 11, <http://www.syntao.com> (accessed August 8, 2010).

<sup>35</sup>Peter Newell and Jędrzej George Frynas, "Beyond CSR? Business, Poverty and Social Justice: An Introduction," *Third World Quarterly* 28, no. 4 (June 2007): 677-78.

tervention in CSR. The consequence, however, is enormous: it has generated two separate worlds of CSR within a single country and the interaction between these two networks has been extremely limited to date.

### **One Dream, Two Worlds**

As in other countries, CSR activities in China are usually implemented within a network in which key actors interact systematically. When companies set out their plans for CSR activities, for example, community outreach projects such as building bridges or providing medical support in urban or rural communities, they should cooperate with those key actors, and in many cases this cooperation develops into a network in which each actor carries out CSR activities within its own area of expertise. Central, provincial, municipal, and lower-echelon governments implement CSR-related policies based on national and local laws and regulations. They also provide information on what needs to be improved within their jurisdictions. NGOs provide legitimacy, logistics, and expertise, and they also play a watchdog role. Service providers are the important advisors, providing companies with information about local conditions. Academics and media organizations play significant roles in the sense that they increase CSR awareness among the public and conduct research and education activities. As was noted in the previous sections, what is unique about China, however, is that there are two separate CSR networks—one for domestic SOEs and the other for FIEs.

The CSR network for FIEs is based on the voluntary actions of foreign companies who are willing to take responsibility for their impact on local society and to improve their relations with that society. This network has grown rapidly as more foreign companies have responded to increased sensitivity among typically patriotic Chinese consumers about what these companies or their home countries have been doing. In this network, FIEs devise their CSR strategies with support from NGOs (mostly international NGOs), international organizations of various kinds, and service providers offering CSR-related services mainly to foreign companies. The govern-

ments—central or local—are also participants in this network, helping FIEs to meet local needs effectively but at the same time directing their activities toward the governments' preferred objects in many cases. However, unlike the CSR network for SOEs, governments are only one category of participants in the CSR network for FIEs. Also, they are in general supportive to foreign NGOs because virtually all the CSR-related activities of foreign NGOs avoid politically sensitive issues.<sup>36</sup>

NGOs play a significant role in the FIE network. Just as they are in developed countries, NGOs are the key drivers of CSR, sometimes as critics and sometimes as partners with business. Their monitoring function is important because CSR is basically voluntary. Also, there is growing evidence of their developing partnerships with businesses to promote CSR effectively, such as the World Wide Fund (WWF)-IKEA collaboration.<sup>37</sup> In most cases, FIEs prefer to get support from international NGOs rather than from Chinese ones, because they perceive the former to be more reliable, transparent, and accountable. International NGOs, particularly those with a lot of experience of working in China, help FIEs set up and implement CSR projects in target communities and assist in training company employees to carry out CSR related activities. FIEs' perception of domestic NGOs, in contrast, is negative: they are seen as quasi-governmental or government-owned bodies which will guide FIEs toward meeting the needs of local governments rather than those of local people.

FIEs' preference for international partners is obvious also in the case of other types of actors in the network, such as service providers, media organizations and web sources, and business associations and organizations. The reason for this preference is the same: these organizations are perceived as being more accountable, trustworthy, and transparent. There are various types of international service providers working in China. Ex-

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<sup>36</sup>Interview with international NGO activists in Beijing, 2009.

<sup>37</sup>For the WWF-IKEA partnership case, see Brett Gerson, "CSR Best Practices: Companies that Want to Improve Their Corporation Social Responsibility Programs in China May Learn from the Experiences of Others," *China Business Review* (May-June 2007): 20-25.

amples include Business for Social Responsibility (BSR),<sup>38</sup> the Center for International Business Ethics, the Asia Foundation, the embassies and chambers of commerce of the major developed countries, the United Nations Development Program (UNDP) China Office, the Japan International Cooperation Agency (JICA), and web service providers such as CSRchina.net, ChinaCSR, and CSRAsia.<sup>39</sup> These organizations provide information, consultancy, and training services to businesses interested in CSR activities in China. They usually recommend globally accepted reporting standards such as the Global Compact and Global Reporting Initiative.

FIEs' preference for foreign actors and their reluctance to rely on the government and domestic NGOs as partners has further reinforced the bonds between foreign CSR actors. As a consequence, a separate world of CSR has been created in which FIEs and foreign actors help each other to carry out CSR activities. The principles, standards, resources, norms, and procedures of CSR that they use are all ones that are in general use internationally. Foreign companies understand that they should base the design of their CSR activities primarily on the interests and concerns of local people. At the same time, however, they realize that developing and maintaining a CSR network of skilled actors with plenty of experience and know-how produces better outcomes. They also understand that CSR is basically a voluntary activity and that partnership with NGOs, rather than the government, is important, especially in the long term.

The CSR network for SOEs is quite different from that for FIEs in many respects. In this network, CSR is basically a non-voluntary, government-driven activity undertaken by major domestic companies, mostly targeting consumers in developed countries, especially those in Europe. The government—SASAC specifically—is the most important driver of

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<sup>38</sup>BSR is a non-profit business association headquartered in San Francisco and with offices in Europe, North America, and China. It is a CSR service provider but at the same time it acts as a huge global network of CSR information and practices with more than 250 member companies worldwide. More information on BSR is available at <http://www.bsr.org> (accessed August 8, 2010).

<sup>39</sup>The homepages of these web service providers are as follows: <http://www.csrchina.net>, <http://www.chinacsr.com/en>, and <http://www.csr-asia.com> (accessed August, 8 2010).

CSR in the sense that it not only strongly encourages major SOEs to participate in CSR but also develops the national strategy for promoting CSR in close cooperation with partners such as government-organized NGOs and government-affiliated research institutions and organizations. It is commonly known as a "three-color strategy"—green for environmental protection, blue for overseas markets, and red for Communist Party leadership.<sup>40</sup> This strategy sends a message to foreign governments and companies that it is intended to establish "CSR with Chinese characteristics" in which the government controls the entire CSR process in order to maximize the efficiency of companies' CSR activities. That the government has attempted to create China's own reporting standards and publishing guidelines for each sector or industry illustrates its intention to build up a kind of national CSR system.<sup>41</sup>

The idea of establishing a national CSR system is reasonable in the sense that companies should consider the local context first when they carry out CSR activities in other countries. Companies should get to know the local priorities, and it may be more efficient for the government to systematically allocate CSR activities to various locations. However, one of the weaknesses of this system is that if the government is too heavily involved in CSR and the participation of civil society actors such as NGOs is limited, as it is in China, then CSR may easily become nothing more than "green washing" because there is almost no watchdog in the system. Although the government plays a role in CSR in developed countries too, increasingly it is the partnership between businesses and NGOs that is pivotal to CSR in those countries.

In the CSR network for SOEs, Chinese companies, especially the central enterprises, commit to CSR activities because they are urged by the

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<sup>40</sup>Here, "green" implies more than just environmental protection; it covers all the three major aspects of CSR in China—community outreach, safety and education, and environmental protection.

<sup>41</sup>Some scholars and government officials even argue that the old *danwei* (work unit) system that operated during the Maoist period and under which job security, housing, education, and welfare for workers and their families were guaranteed is the perfect example of the Chinese version of CSR. However, under today's CSR system, companies shoulder social and environmental responsibilities voluntarily.

government to do so, and they get help from the government-related actors within the network. These actors include government-organized NGOs such as the China Association for NGO Cooperation (CANGO) and the China Committee of Corporate Citizenship,<sup>42</sup> private Chinese service providers such as SynTao (商道縱橫), government-sponsored research institutions such as the CSR Research Center under the Chinese Academy of Social Sciences, and the media. The network has been strengthened as the government's determination to promote CSR with Chinese characteristics has increased.

## **Conclusions and Implications**

To date, there has been no substantial interaction between the two CSR networks in China. They only come together in the China Business Council for Sustainable Development (CBCSD), a Chinese version of the World Business Council for Sustainable Development (WBCSD). However, this is simply a forum where individuals exchange ideas and information; it does not allow for systematic interaction between the two networks. Presumably, if the government were to attempt to expand CSR with Chinese characteristics to include FIEs, this might be another way of connecting the two networks. In 2008, the Chinese Academy of International Trade and Economic Cooperation, a research institute under the Ministry of Commerce, issued draft Guidelines on Corporate Social Responsibility Compliance for Foreign Invested Enterprises. This is simply a set of guidelines, rather than a law, stressing the role of FIEs in CSR activities in China. However, many Chinese CSR specialists are of the opinion that CSR will be a legal requirement for FIEs in the near future. In that case, there will no longer be a voluntary aspect to CSR in China.

In this paper, I have examined how domestic political conditions—strong government intervention in the market as a whole and a relatively

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<sup>42</sup>These are the two representative government-organized NGOs, officially registered under the Ministry of Civil Affairs, that are in charge of CSR in China.

weak civil society—have produced in China an unusual, but perhaps temporary, system of CSR in which two different networks coexist with almost no mutual penetration and interaction. The Chinese government can intervene in the CSR activities of SOEs because it has full authority to control them, and also because the government allows NGOs very little autonomy, especially in the politically sensitive area of corruption and other scandals involving state-owned businesses.

Whenever a new system of social practice arrives in China, usually from the developed countries, such as voluntary environmental protection schemes or codes of ethics, the Chinese government tends to see it as something that must be dealt with, rather than something that can be lived with. As I explained above, the most critical determinant of global CSR divergence found in China is excessive government intervention. Government intervention may in some ways make sense because China is still a developing country that might find it difficult to adhere to codes of conduct devised in the developed world. However, even though the government plays a positive role, in terms of urging companies to take action, it should also allow NGOs to participate in CSR in an active and autonomous way by establishing mutually beneficial partnerships with businesses. In other words, a certain degree of balance between government intervention and the role of NGOs is needed in CSR promotion in China, no matter how it is defined—as a global version of CSR or CSR with Chinese characteristics. The future of CSR in China will depend on how well the main stakeholders can create and maintain this balance between the two major inputs.

As globalization brings the ideas, norms, practices, and standards of CSR to developing countries, there is much debate over whether CSR can actually benefit these countries. Based on an analysis of the case of China, this paper shows that it ultimately depends on whether domestic actors in these countries, rather than multinational corporations and/or international organizations, can design effective CSR systems. Domestic stakeholders in developing countries, especially the government, should not just seek immediate gains but should develop a CSR strategy that takes into account the possible long-term benefits for all the stakeholders involved in the CSR



process. If they do not do this, they will be burdened with the unnecessary costs of controlling CSR excessively.

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