Quality of CSR Reporting in China: A Comparative Analysis Between State- and Privately-Owned Real Estate Companies

Jennifer Qiu
University of Pennsylvania

Follow this and additional works at: http://repository.upenn.edu/sire

Part of the Business and Corporate Communications Commons, Business Law, Public Responsibility, and Ethics Commons, Management Information Systems Commons, and the Real Estate Commons

http://repository.upenn.edu/sire/50

This paper is posted at ScholarlyCommons. http://repository.upenn.edu/sire/50
For more information, please contact repository@pobox.upenn.edu.
Quality of CSR Reporting in China: A Comparative Analysis Between State- and Privately-Owned Real Estate Companies

Abstract
Due to domestic demands, the Chinese government has increased its policy emphasis on sustainable development, prompting both state-owned and privately-owned enterprises to engage in corporate social responsibility. Enterprises dedicate a lot of efforts compiling CSR reports as a reflection of their CSR efforts or as a mere marketing tool. This study aims to evaluate the quality of CSR efforts using the framework outlined by the GRI Reporting Principles for Defining Quality, namely “Accuracy”, “Comparability”, “Balance”, “Reliability”. Emphasis across different categories of the GRI index was also studied. This study finds that there is a lack of a mature and centralized CSR reporting system across enterprises, and under comparison, state-owned enterprises publish reports with higher overall quality possibly due to more direct incentives and pressures from administration.

Keywords
CSR, corporate social responsibility, China, state-owned, privately-owned, reports, quality, real estate, sustainable development

Disciplines
Business | Business and Corporate Communications | Business Law, Public Responsibility, and Ethics | Management Information Systems | Real Estate

This working paper is available at ScholarlyCommons: http://repository.upenn.edu/sire/50
Quality of CSR Reporting in China:
A Comparative Analysis Between State- and Privately-Owned
Real Estate Companies

Author: Jennifer Qiu
The Wharton School, University of Pennsylvania
jenqiu@wharton.upenn.edu

Faculty Advisor: Jose Miguel Abito
The Wharton School, University of Pennsylvania
abito@wharton.upenn.edu

Summer 2017
Business Economics and Public Policy
Social Impact Research Experience
ABSTRACT

Due to domestic demands, the Chinese government has increased its policy emphasis on sustainable development, prompting both state-owned and privately-owned enterprises to engage in corporate social responsibility. Enterprises dedicate a lot of efforts compiling CSR reports as a reflection of their CSR efforts or as a mere marketing tool. This study aims to evaluate the quality of CSR efforts using the framework outlined by the GRI Reporting Principles for Defining Quality, namely “Accuracy”, “Comparability”, “Balance”, “Reliability”. Emphasis across different categories of the GRI index was also studied. This study finds that there is a lack of a mature and centralized CSR reporting system across enterprises, and under comparison, state-owned enterprises publish reports with higher overall quality possibly due to more direct incentives and pressures from administration.

Keywords: CSR, China, state-owned, privately-owned, reports
INTRODUCTION

Economic development comes at great costs. This is notably observed through China’s rapid development as the “world’s factory” and its various environmental consequences—air pollution, water shortages, desertification, soil pollution etc (Kan, 2009). However, as former General Secretary Hu Jintao signaled in his 11th Five-year plan in 2006, the Chinese government shifted the policy focus from accelerating economic growth to ensuring sustainable development and quality growth, so as to answer to growing domestic social demands. As the concept of social responsibility is brought into the scope of government supervision and legislation control, firms have also voluntarily accelerated the diffusion process of “corporate social responsibility (CSR)” practices in China to become reputable, sustainable firms in the international arena (Lehman, Lee and Xu, 2008).

The notion of “CSR” originated from the West, thus, the body of literature related to companies in emerging markets is still small due to the lack of CSR reporting in recent decades. As compared to the West’s habit of systematic sustainability reporting, as pioneered by the General Reporting Initiative in the 1990s, it has only been 10 years since the Chinese government first recognized the need to encourage CSR. It has been on the rise since then, with 582 CSR reports being released in 2009, 3.5 times the number produced before. As many Chinese companies have gradually matured in their CSR efforts and more data is now available, this is a timely period to conduct research on Chinese firms’ CSR performances.

Chinese state-owned enterprises (SOEs) have generally been presented in a rather negative light in past research, due to their inefficiencies, lack of competitiveness, rent-seeking, the economic distortions they bring etc. (Kratz and Brown 2013, 3). However, the government also “sits at the top of the CSR pyramid in China” as an important stakeholder (ChinaCSR.com 2009), providing many incentives and resources for SOEs to pursue CSR. Historically, Maozedong outlined the goal of SOEs as “serving the people” – in modern
terms, to be socially responsible. Meanwhile, private firms have become more reactive to government signals due to the need for a “corporate political strategy”. Conflicting results have also been observed in other emerging markets. For example, Ghazali (2007) found that Malaysians firms with higher levels of government ownership report have significantly higher levels of CSR disclosure. Yet, Sufian and Zahan (2013) did not find any association of variables, specifically ownership structure, with CSR disclosure in Bangladesh. The changing natures of SOEs and private enterprises in China, in addition to such conflicting results in other markets, prompt more in-depth analysis into the differences in CSR performance between Chinese SOEs and private enterprises.

Past comparative research on CSR have mainly evaluated CSR from three angles. Firstly, studies have compared “levels of disclosure” in terms of quantity of CSR reports issued (Akmese, Cetin, and Akmese 2015) (Marquis and Qian 2014). Secondly researchers studying “performance” have compared key performance indicators, including but not limited to energy intensity, donation amounts, monetary investments in CSR etc. (Kim and Jeon 2015). Thirdly, some researchers take reference from ratings published by professional rating agencies, such as Rankins CSR Ratings (RKS) (Lau, Lu, and Liang 2013). The first method was not deployed because existing data is available and this paper aims to provide a more nuanced analysis into the content of CSR reports. Due to the history of false reporting in China, the latter two methods were not

Instead of quantifying results, this research paper aims to evaluate the quality of CSR reports published by state-owned and private real estate companies according to the GRI Reporting Principles for Defining Quality (GRI, Sustainability Reporting Guidelines 2011). This content analyses will be conducted on a sample of 14 of the largest real estate companies in China, 7 state-owned and 7 privately-owned. After comparing the results, it is concluded that Chinese state-owned companies perform better in terms of “accuracy” and
“reliability”, while both state-owned and privately-owned companies are weak in “comparability” and “balance”.

Development of Corporate Social Responsibility in China

The sense of CSR in China can be traced to historical ages. International business academic Dean Professor David Lamond explained that the concept of business ethics is embedded in Confucian philosophies such as Ren (benevolence), Yi (righteousness), Li (Propriety), Zhi (wisdom) and Xin (trustworthiness) (The Conversation, 2011). Under the influence of Marxism, the Department of Education mandated that “ethical studies” be taught as a formal course in universities. Later, level of conversations on ethical issues specifically in businesses were raised under the government slogan to “strengthen the construction of socialist spiritual civilization” (Lu 1997).

During this socialist planned-economy period, the role of SOEs in the development of CSR must be highlighted. SOEs were established to “serve the people from cradle to grave”, such as employing the Chinese people for life, with a comprehensive system of welfare benefits such as and not limited to education, affordable food, housing etc. This is a reflection of a strong sense of CSR among SOEs due to its politicization to “be the face of the government” by promoting socialist principles and obeying government orders (Zhang 2014). However, in recent decades, reforms on SOEs encouraged SOEs to pursue other objectives such as efficiency, and Chinese private enterprises began growing in size and influence. Ma (1992) studied the corporate objectives of 210 SOEs to find that nearly half of the respondents chose “high profits” as their highest priority, with only 2.6% seeing “increasing employees’ income” as their priority. Throughout the years, the nature of SOEs changed, for example, employee benefits started shifting from a state-paying nature to a user-payer principle, and 21.4 million people were laid off by SOEs in 2000 (China Statistical Yearbook 2001).
As China opens herself up to the international market and participated in the international supply chain, inflow of Western management talents and philosophies further strengthened the concept of CSR, especially encouraging the implementation of CSR codes of conduct, standards and systems. As CSR further penetrated into society, non-governmental organizations and academic institutions etc. began researching and advocating CSR extensively. As scandals such as poor labour conditions and child labour etc. in China caused attention internationally (Financial Times, 2007), trade departments and firms alike are faced with international pressures on ethically managing consumer issues (in food, cosmetics, toys), working conditions (in textile and sports good) as well as human rights issues (in information technology). Recently, non-governmental organizations gaining more “voice” in China through the internet and media, has also facilitated society’s emphasis on CSR (Moon and Shen 2010).

Globally, firms have started issuing CSR reports since 1990s (KPMG 2008) (Figure 1.1). However, it is not until 2006, did the trend of CSR reporting pick up (Figure 1.2), with the largest Chinese SOEs such as State Grid, China Mobile etc., leading the trend. (Marquis and Qian 2014). Breaking down the ownership nature of corporations that issue CSR reports, it can be seen that state-owned enterprises make up the majority of these firms (60%), while domestic and foreign private companies make up 25% and 15% respectively (Figure 1.3) (Research Centre for Corporate Social Responsibility, 2013).

Despite the salience of CSR reporting, the quality of Chinese CSR reports have often been criticized. It has been found that among CSR reports published in 2009 in China, only 7.8% of them referenced to the Global Reporting Initiative guidelines, the leading international standard, while only 6.1% implemented third-party evaluations to ensure the quality of the reports. Thus although in quantity has been increasing, quality of these reports are questionable, thus, motivated this research project.
Positive Measures Implemented to Promote CSR

Promotion of CSR was pioneered by the government. The first sentiments were expressed in the 6th plenary session in 2006, where the Communist Party’s central committee agreed on the national commitment to “enhance a sense of social responsibility amongst citizens, enterprises and all kinds of organization” (Sino-Swedish Corporate Social Responsibility 2009). Subsequently in 2008, the State-owned Assets Supervision and Administration Commission of State Council (SASAC) published the ‘No. 1 Red Header Document’ as the first guidelines to CSR reporting for state-owned enterprises, meanwhile emphasizing on the benefits of CSR in achieving sustainable development and SOE’s potential in improving the influence of Chinese firms in the international business arena. In August 2010, the Commission also mandated that SOEs have to issue sustainability or CSR reports within 3 years and enhance communication with all stakeholders.

China’s capital markets also contributed in the field. The Shen Zhen Stock Exchange (SZSE) offered guidance on ESG reporting (SZSE, Social Responsibility Instructions to Listed Companies 2006), and has sustainability-related indices such as “SZSE SME CSR Index” to “guide the listed companies to positively reward their shareholders” (SZSE, Three Thematic Indices 2012). It also has a sustainability section on its website that reports news on CSR efforts of listed companies. In addition to similar efforts as SZSE, the Shanghai Stock Exchange (SSE) has also listed green bonds, as well as offers training for green bonds/ABS issuers and underwriters. (Sustainable Stock Exchanges Initiative). SSE, as China’s leading stock market with 1302 listed companies and a domestic market capitalization of 4,457,971USD, has played an active role in promoting sustainability performance and encouraged many firms to follow suit. For example, SSE issued a policy encouraging firms to disclose non-financial information, such as CSR reports, which resulted in a 21% increase in
CSR reporting among its listed companies. Moreover, a lot of attention was raised when it launched the social responsibility index in August 2009, showcasing the top 100 companies with the best CSR performance. (CSR Asia, 2012)

**Theoretical Background on effects of ownership on CSR**

Institutional theories support the hypothesis that SOEs have more superior CSR performances. From this perspective, SOEs face normative pressures to increase involvement in CSR due to the state’s wishes for them to be “role models for their counterparts”. This is further reinforced by the State Council’s explicit encouragement for SOEs to publish CSR reports as early as 2007. Apart from institutional pressures, Zhang (2011) also pointed out that SOEs are advantageous in that they have more resources than private enterprises. SOEs have started taking up nation-building tasks since 1949, while private enterprises have only been around for a brief 30 years after reform and opening up of China. Thus, private enterprises are “relatively smaller, has relatively junior technique and poor management”.

Thirdly, Zhang also found that private enterprises’ corporate goals are relatively narrower, and often see the enterprise as “a tool for revenue generation” and CSR as a cost. Thus, the relatively higher CSR awareness in SOEs, at least historically speaking, has resulted in their higher performance in CSR. Lastly, SOEs often operate in relatively environmentally-sensitive industries, such as petrochemicals, thus, from a practical point of view, tend to put more efforts especially in upholding environmental social responsibility.

As a result, the first batch of firms in China that published CSR reports were indeed SOEs such as Baosteel Group, China Mobile etc., with State Grid being the first. (Moon and Shen 2010). In 2016 Fortune chose the top 100 CSR performers among Global 500, of which only 3 Chinese firms were selected, all of which are state-owned, namely State Grid Corporation of China, Sinopec and PetroChina. (ifeng Finance, 2016). China Academy of
Social Sciences also published the “China charity Blue Papers” in 2015 and revealed the CSR development indexes of different Chinese firms. Performances of SOEs were significantly better, with an average score of 56.1 and that of civilian-run domestic companies being 23.3. In 2015, SOEs contributed to 60% of the 1703 CSR reports published that year.

Despite the data, some researchers believe private enterprises have higher CSR performances than SOEs in recent years. Marquis and Qian (2014) saw CSR reporting as a political strategy. They hypothesized that SOEs and private enterprises alike compete for political legitimacy, and that SOEs, with sufficient government ownership, has less need to engage in activities such as CSR reporting to seek resources or a preferred status from the government than private enterprises do. In addition to this, in the socialist environment, private enterprises were often viewed as “enemies of the people”, thus, to compensate their lack of legitimacy, private enterprises have more incentive to maintain a positive image and appease the government through CSR.

Moreover, in recent years, the mind-sets of private enterprises also started improving through an increased awareness of CSR. In 2007, the Report of Development of Chinese Entrepreneurship showed that private enterprise’s sense of CSR is better than SOEs while the China Chen and Yu (2007) conducted surveys on 502 firms in Zhejiang Province to find that private enterprises’ understanding of CSR and their sense of responsibility towards their staff and the disabled are higher than that of SOEs. Moreover, private enterprises are also growing in size and influence, as the number of Chinese private enterprises in Fortune 500 are increasing in quantity and quality, as the monopolies of SOEs start to be removed through reforms. Faced with fiercer international competition, Chen and Yu (2007) found that private enterprises are more responsible in product quality and fulfilling customer’s interests. All these findings show that private enterprises have the potential to close the gap or even surpass SOEs in CSR performance, thus, making comparisons between the two more meaningful.
Although SOEs are created with the duty of CSR, scandals about SOEs are often found in newspapers. The oil leak incident at ConocoPhillips China Co., Ltd. and the leaking and explosion episode at Sinopec were strongly criticized by the community.
METHODOLOGY

Sample Selection

Content analysis was conducted on 14 CSR (or Sustainability) reports, of which 7 were state-owned and 7 were privately-owned.

The State-owned Assets Supervision and Administration Commission considers 12 SOEs as “real-estate focused” (SASAC, 2010), and the 7 SOEs that were ranked highest by the SASAC and have CSR reports available online were selected to be part of the sample.

(Fig 2.1)

<table>
<thead>
<tr>
<th>Name of SOE</th>
<th>Availability of Online CSR Report</th>
<th>Chosen?</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 China State Construction Engineering</td>
<td>Yes</td>
<td>Yes (1)</td>
</tr>
<tr>
<td>2 China National Real Estate Development Group Corporation</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>3 China Poly Group Corporation</td>
<td>Yes</td>
<td>Yes (2)</td>
</tr>
<tr>
<td>4 Overseas Chinese Town Group Company</td>
<td>Yes</td>
<td>Yes (3)</td>
</tr>
<tr>
<td>5 China Railway Engineering Corporation</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>6 China Railway Construction Corporation</td>
<td>Yes</td>
<td>Yes (4)</td>
</tr>
<tr>
<td>7 Sinochem Group</td>
<td>Yes</td>
<td>Yes (5)</td>
</tr>
<tr>
<td>8 China National Cereals, Oils and Foodstuffs Corporation</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>9 China Metallurgical Group</td>
<td>Yes</td>
<td>Yes (6)</td>
</tr>
<tr>
<td>10 CR Land</td>
<td>Yes</td>
<td>Yes (7)</td>
</tr>
<tr>
<td>11 China Minmetals Corporation</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>12 Sinohydro Group Limited</td>
<td>No</td>
<td>No</td>
</tr>
</tbody>
</table>

(Fig. 2.1)
As for private firms, the largest 7 privately-owned firms in terms of 2016 contracted sales were chosen. (Fig 2.2)

(Fig. 2.2)

**Independent Variable**

The main purpose of the study is to compare the quality of CSR reports from privately-owned enterprises against that of state-owned enterprises. Thus, the independent variable is the “state of ownership”. This can be determined on company information from the Shanghai or the Shen Zhen stock exchange information if it’s a listed company, on the website of State Administration of Industry and Commerce, as well as on company’s own website.
Controlled Variable

The sampled companies are all real estate companies with majority of their operations in property development. This was ensured through the websites and databases where the company rankings in Fig 2.1 were derived from. They also all operate in China and have CSR reports with lengths of more than 10 pages. The page length requirement is to ensure that the reports are representative and comprehensive enough to be adequately analyzed and negatively affect the average quality of the reports in that category by being an outlier.

Dependent Variable

General Level of Emphasis

To find the relative emphasis sampled reports place on different aspects, page numbers are used as a proxy for the level of emphasis being placed, as it can estimate the level of detail as well as time committed in writing and executing efforts in that specific sector. Several measures with regards to page numbers will be examined, such as comparing the number of pages of CSR reports as well as number of pages dedicated to each sector (e.g. economic, social and environmental responsibilities).

The Shanghai CSR Index was also studied to find which companies were included in the index, whereby an authoritative organization confirms the company’s substantial dedication to CSR.

GRI Reporting Principles of Defining Quality

The context of methodology was developed around the GRI Reporting Principles of Defining Quality, specifically “Accuracy”, “Comparability”, “Balance” and “Reliability”. Measures used as a proxy to reflect the above principles are described below:

Accuracy
Accuracy reflects the degree of accuracy and detail of the report for stakeholders to comprehensively assess the company’s performance. Scores were tallied according to the GRI Index (GRI G4, 2015) as the follows.

Accuracy scores were compared between different categories as well as between state-owned and privately-owned enterprises.

<table>
<thead>
<tr>
<th>Score Awarded</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>Item was not mentioned</td>
</tr>
<tr>
<td>1</td>
<td>Item was mentioned as a goal</td>
</tr>
<tr>
<td>2</td>
<td>Strategies / programs / efforts relevant to the item was described in detail</td>
</tr>
<tr>
<td>3</td>
<td>Quantitative performance data relevant to the item was presented</td>
</tr>
<tr>
<td>4</td>
<td>Quantitative performance data relevant to the item from two consecutive years was presented</td>
</tr>
</tbody>
</table>

Comparability

Comparability indicates that reports should report information consistently over time for stakeholders to analyze change overtime. Thus, the number of scores of “4” in each report are tallied, which indicates the presentation of data over time. The number of “4” in each category was also compared to observe any patterns.

Balance

The principle of balance can be achieved if reports reflect both positive and negative performance information. Most of the information reported are positive, thus to evaluate “balance”, the number of negative incidents reported is tallied.

Reliability

Under reliability, organization should gather and disclosure of information in a way that can be subject to examination to ensure the quality and materiality of the information. To
evaluate this, the number of references to various reporting standards by each report is tallied, such as the UN, GRI, Shanghai Stock Exchange Reporting Guidelines etc. Total number of references made by state-owned and privately-owned companies are compared, and total number of references made for each reporting guideline is also recorded. Moreover, if reports included a KPI table in accordance to a specific set of reporting guideline, it reflects an even higher level of reliability. Another measure of reliability is whether sampled companies solicited opinion from 3rd parties for their reports, such as from accounting or audit firms, or a feedback form to solicit feedback from readers.
FINDINGS

General Findings

Relative Emphasis on Different Aspects of Social Responsibility

In comparing the lengths of CSR reports, Fig 3.1 shows that the difference in lengths of CSR reports between private and state-owned enterprises are not significant, which are 70.14 and 72.71 pages respectively.

(Fig 3.1)

Under GRI, there are two main types of standard disclosures: General Standard Disclosures, which includes organization, strategies, stakeholder engagements, governance etc. of a firm, as well as Specific Standard Disclosures, which includes indicators on the social, economic and environmental responsibilities. Taking an average across all real estate firms in the sample, as shown in Fig 3.2, it is found that reporting on Social Responsibility take up the highest proportion, nearly half, of the entire CSR report. This is followed by environmental responsibility, which takes up 13.42%, and then “General Standard Disclosures” of 9.77%. Economic responsibility takes up only 1.89% of CSR papers.
When comparing between state-owned and privately-owned firms in Fig 3.3, no significant difference can be observed in the proportions.

The overwhelming emphasis on social responsibility in CSR reports reflect a narrow interpretation of “corporate social responsibility”. As explained earlier in the paper, the Chinese concept of CSR is deeply rooted in the Confucian philosophies, particularly “Ren” (benevolence/humanity), which is the most prominent virtue in Lun Yu, a book that consists of dialogues between Confucius and his disciples. Yu (1998), by analyzing the composition
of the Chinese character “ren” that consists of the character for ren (human) and er (two), purports that “ren” directs people towards “human relationships”. It can be inferred that the “human factor” in corporate social responsibility remains prominent in firm’s management, thus resulting in an emphasis on the social dimension of CSR among the sampled firms. For example, many firms described how they hope to establish a “beautiful and pleasant home (创建美好新家园, Poly Real Estate Group)”. Specifically, China State Construction’s overarching theme of their sustainability report was “expanding a happy living environment; building a common dream home” (拓展幸福空间，共筑梦想家园). These are all slogans that are very human-oriented – aiming to create a pleasant environment for customers and the wider community through property development. Moreover, Parsa, Tang and Dia (2016) conducted semi-structured in-depth interviews with CSR managers of 11 private or state-owned enterprises. A key finding was that most of them heavily alluded to employee welfare regarding their perceptions of CSR.

Economic responsibility was minimally emphasized, which is in line with the common culture whereby conceptions of social responsibility often refer to both social and environmental issues. (Institutional Institute for Sustainable Development, 2004) The report also studied the situation in Chile to find that both social and environmental responsibilities have clear regulatory standards while there is lack of environmental social responsibility requirements in company laws. This is also a similar situation in China, as both countries are at the developing stage of regulations on sustainability development.

**Inclusion in Shanghai CSR Index**

Shanghai Stock Exchange (SSE) has played a prominent role in advancing sustainability reporting in China. Since the SSE policy encouraging CSR reporting,
disclosure among listed companies increased by 21% in 2008 (Institutional Institute of Sustainable Development, 2012). The SSE also launched the CSR Index in 2010 which showcased the 100 companies that performed the best in the area of social responsibility performance. In this research sample, as seen in Fig 3.4, 3 out of the 14 companies are currently included in the index, which are Poly Real Estate Group, China State Construction and China Railway Construction, all of which are state-owned enterprises. On this note, state-owned enterprises perform significantly better than private enterprises.

(Fig 3.4)

**Findings on “Accuracy”**

*Accuracy Scores Across Categories*

Fig 3.5 shows that energy and emission are the two categories with the highest accuracy scores, implying a great extent of emphasis from both private and state-owned enterprises. China is notorious for its serious level of air pollution. LiveScience Journal (2013), ranked “air pollution” as number 1 of China’s Top 6 Environmental Concerns. Ye (2009) reported that out of the twenty cities in the world with the most serious pollution problem, sixteen are in China. The problem of air pollution persists till the present day,
residents in northern Chinese cities experienced the longest stretch of air pollution in record. Since the Olympics, city officials have pledged to spend over $12 billion dollars to solve the problem, such as mandatory factory closures and bans on motor vehicles in Beijing. Policy emphasis from the government on cleaning the air is possibly what prompted both state-owned and privately-owned to increase their emphasis on being socially responsible with regards to “energy” and “emission”.

“Supplier Environmental Assessment”, “Compliance” and “Environmental Grievance Mechanism” were among the items with lowest scores. This is possibly due to the lack of maturity in Chinese government’s environmental regulation. Without a formal, systematic guideline to follow, it is hard for companies to emphasize elaborately in their CSR reports on their screening of supply chain participants, keep track of fines and non-monetary sanctions for non-compliance to environmental laws or file environmental impacts reports through formal grievance mechanisms. When comparing US and Chinese Environmental Law, Fzaio and Strell (2012) found that when compared to the US Environmental Law, Chinese ones have lower standards, less consistent enforcement, restricted public access to information and immature NGOs to support. This culture with less emphasis on compliance might be the cause for a subsequent lower emphasis on such fields in the CSR reports.
Differences in Accuracy Scores between State-owned and Privately-owned Enterprises

Comparing between state-owned and private enterprises across all categories in Fig 3.6, only in 4 out of 12 (33.33%) categories are privately-owned companies have higher accuracy scores than state-owned enterprises. The largest difference is observed in “Energy” in Fig 3.7, where state-owned enterprises earn a score of 17 higher than that of privately-owned. This can be observed as “energy” is one of the areas that the government has been making a significant effort in improving. The Chinese government has realized that its resource intensity in production is unsustainable, thus has pioneered efficiency gains, technological innovation and renewable energy (Climate Nexus). Specifically, many of such policy agendas were pushed forth by Chinese’s largest energy companies, which is dominated by state-owned companies, such as China Petroleum and Chemical Corporation, China National
Petroleum Corporation, China National offshore Oil Corporation and Shenhua etc. For example, China leads the way in solar energy, with around 45% of the world’s new solar installations built there. Such initiatives by state-owned enterprises in the energy sector possibly prompts state-owned enterprises in other sectors to increase efforts sustainable use of energy as well.

Fig 3.6
**Findings on “Comparability”**

The principle of comparability refers to the ability of organizations to report information consistently that enables stakeholders to make analysis on changes in company’s performance in the area over time. To indicate that, this research attaches a score of “4” for companies who reported data from the current year as well as consecutive past years. For example, level of CO2 emission in the current year and the year before.

From Fig 3.8, out of the categories, energy has the highest comparability score, which is consistent with the same category having the highest accuracy score across the board. Comparability score also reflects the relative emphasis the company places on this category to an extent that they think it’s necessary for stakeholders to be informed of changes through
time. It also indicates that the company is making a progress in this particular area, as companies usually will try to conceal past data if they are not making progress or if their performance has worsened.

Fig 3.8

There is no significant difference in comparability scores between privately-owned and state-owned enterprises, as privately-owned enterprises have 8 scores of 4, while state-owned enterprises have 7. However, out of 34 items in the GRI index, 14 companies only accumulate 15 scores of “4”, which is lower than expected. Thus, this is an area to be improved on by companies across the board.

Findings on “Balance”

It was observed that none of the CSR reports from both privately-owned and state-owned companies presented data on negative incidents, such as environmental scandals or non-compliance with environmental laws and regulations. Lack of transparency is not an
unorthodox finding among Chinese companies. Steekman (2014) pointed out that, in 2014, there were serious incidents of fraud among Chinese public companies listed in the US stock exchanges that engaged in reverse mergers, which “painted all Chinese companies with the same toxic brush”. In fact, the need to maintain reputation often overweighs the need for public disclosures for both privately-owned and state-owned enterprises alike. This mindset, as is originated from the culture of “face” in China, is derived from cultural origins and influences of religion on societal belief. Lin and Wong (2015), in comparing East and Western corporate transparency and its underlying ethical differences, explains the tremendous power audiences have on companies’ disclosures because of companies’ fear of reputational damages. For example, in the Changzhou toxic soil scandals, the chemicals firm (Jiangsu Changlong Chemicals, Changzhou Changyu Chemicals and Jiangsu Huada Chemicals) were criticized for lack of disclosure regarding its discharges.

**Findings on “Reliability”**

**References made to reporting guidelines**

The first angle to evaluate reliability is through the reports’ compliance to various reporting standards. Organizations such as UN and GRI (Global Reporting Initiative) write sustainability reporting guidelines to help businesses and governments alike to better understand and communicate their operational impacts on the economy, the society and the environment etc. Stock exchanges in China, such as that of Shanghai and Shen Zhen also issued reporting 9 out of the 14 companies sampled referenced to at least one set of reporting guidelines.
When comparing between privately-owned and state-owned companies, a score of “1” is added for every reference to a set of reporting guideline by a company in the category.

<table>
<thead>
<tr>
<th>Reliability Scores</th>
<th>State-owned Enterprises</th>
<th>Privately-owned Enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>18</td>
<td>11</td>
</tr>
</tbody>
</table>

It can be observed that state-owned enterprises perform significantly better in terms of referencing to more reporting guidelines when writing their CSR reports. It is to be noted that 6 out of the 11 points for “privately-owned enterprises” were scored by Vanke, furthering showing that in most other privately-owned enterprises reference to less guidelines. This difference might be caused by a more stringent and centralized reporting system set out by the government.

From Fig 3.9, most state-owned enterprises reference the GRI and CASS-CSR 3.0 guidelines, and all the companies who referenced Stated-owned Assets Supervision and Administration Commission (SASC) Guidelines, is naturally state-owned enterprises. However, it is worth noting that only 3 out of the 7 state-owned companies referenced this, and it can be observed that China State Construction, Poly Real Estate Group and Overseas Chinese Town referenced to other guidelines but not the SASC one, indicating room for improvement from the SASC in enhancing the application of its guidelines in some of the largest companies under its supervision.
Fig. 3.9

From Fig. 3.10, out of the 9 reporting guidelines, the GRI and CASS-CSR guidelines were referenced to the most, and both are one of the major independent standards organizations internationally and domestically respectively.
The large variety of reporting guidelines being referenced, as well as the lack of one prominent reporting guideline indicates the lack of focus of reports on a specific set of guidelines. This reflects that CSR reporting in China lacks a authoritative, legitimate and centralized system for all companies to follow.

**Key Performance Indicators Table with Reference to Guidelines**

A higher level of reliability can be reflected by a higher level of compliance to reporting guidelines, such as the formulation of a KPI table in accordance to a specific set reporting guideline. For example, a KPI table in the format of a GRI Index will show indicate which page was a GRI reporting item mentioned, or which GRI reporting item was mentioned in each section of the report. This makes it easier for the audience to evaluate the comprehensiveness and coverage of the report, as well as for easier comparison across
different companies. This also indicated a dedicated effort to a specific reporting guideline from the company’s perspective.

From Fig 3.11, there isn’t a significant difference between availability KPI tables between the two company categories, with 3 privately-owned companies and 4 state-owned companies having prepared KPI Tables. It is worth noting that the only two company that formulated a KPI table for more than one index are both state-owned enterprises, namely China State Construction (2 tables) and CR Land (3 tables).

Fig 3.11

Solicitation of External Opinions
As seen from Fig 3.12, it is observed that none of the reports in the sample was formally reviewed by an external auditor such as PwC. For example, the latest Hong Kong Exchange ESG requirement included the inclusion of internal controls as well as an auditor’s report inside the CSR report to validate the information included (KPMG, 2015). However, this was not a rule in most of the reporting guidelines from Chinese organizations, thus, leading to the lack of external auditing.

However, some companies in the sample did include a Feedback Questionnaire at the end of the CSR Report, asking readers for their opinions and levels of satisfaction on the report’s disclosure. Out of the 4 companies that did this, 3 were state-owned.

![Inclusion of Feedback Questionnaire](image)

Fig 3.12
CONCLUSION

Profit maximization is no longer the one and only goal in businesses world-wide, and Chinese businesses are no exception. Corporate social responsibility was an idea originating from the West, but as domestic problems within China started arising, more and more pressure have come from governments, customers and NGOs for firms to act socially responsibly. Many studies and organizations attempt to study the performance of these companies, however due to variability in sizes, business focuses, ownership etc., many efforts have gone futile. This research aims to find out how easy it is for this to be evaluated through analysing the quality of reports, and exploring the differences between state-owned and privately-owned enterprises.

Observing all reports as a whole, it can be inferred that China still does not have a systematic and mature CSR reporting guideline that is being applied to most companies. The styles, format and methods of reporting vary greatly across the reports, resulting in great difficulties for stakeholders to compare across the industry. Specifically, this is reflected by the low accuracy scores in environmental assessments, compliance, grievance measures etc., as well as an a lack of one prominent reporting guideline being referenced to, which shows a lack of centralization in CSR reporting instructions. Moreover, various CSR reporting guidelines that are being followed by companies overlook important GRI quality principles of “balance” and “comparability”, with weak performances in both categories from both state-owned and privately-owned companies.

Comparing between the two categories of companies, state-owned enterprises generally perform slightly better, especially in areas of accuracy and reliability. These two principles, namely being detailed and comprehensive, as well as complying to guidelines, are major
principles the government advocates for in CSR reporting. This fits our hypothesis that, as the “government sits at the top of the CSR pyramid”, state-owned enterprises have the most direct incentive and resources.

ICAEW (2016) reported that in China, corporate social responsibility have traditionally been implicit, embedded in their corporate infrastructures, with the norms and values being laid out mainly by the state as well as regional governments. However, a deeper, more underlying question is whether the true incentive behind the propagation of CSR is for the purpose of enhancing the national standard of CSR or merely as a marketing tool to remain competitive in the international arena. (ICAEW, 2016). This question is highly relevant to the study of quality of CSR reports, because extrinsically, a high-quality and comprehensive CSR reports makes it convenient for stakeholders to evaluate and compare CSR performance, but from the company’s intrinsic point of view, it serves as an effective marketing tool in differentiating itself as a sustainable, environmentally and socially-conscious firm. Thus, the underlying reasons behind dedication and time to writing a high quality CSR reports is to be further investigated.
REFERENCES


Zhang, Cong. 中国企业社会责任报告编写. CASS-CSR 1.3.


李伟男,“国企，社会责任的先行者——国企履行社会责任调研”凤凰财经 inews.com.