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**Barriers to Corporate Social Responsibility (CSR) in China: A Focus on  
Small and Medium-Sized Enterprises (SMEs)**

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A thesis submitted in partial fulfilment of the requirements for the degree of  
Doctor of Philosophy

The University of Sheffield  
Faculty of Arts and Humanities  
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Submission Date

22/09/2021

## **Acknowledgements**

I would like to thank the following people, without whom I would not have been able to complete this research, especially given the impact of the Covid-19 pandemic. First, I would like to express my sincere gratitude to my supervisor, Dr Zhong Zhang, for his guidance, support, encouragement, late night discussions, and patience. His comments and feedback are always incredibly helpful. His insight and knowledge have steered me away from serious mistakes. His suggestions have offered me tremendous help not only in my studies but also about life in the UK. As well as Dr Zhang, I want to offer special thanks to Professor Katherine Morton, for sharing with me her considerable knowledge and for her guidance on the doctoral training courses during the early stages of my research journey. I would also like to extend my heartfelt thanks to the many staff at the University of Sheffield who have helped and supported me, especially with issues such as the purchase of library resources that have been vital to my project.

I also cannot forget to thank my friends in China and the UK, who have encouraged me during these years and who have helped me through the coronavirus lockdowns. I would also like to extend my appreciation to all of my study's participants in China, without whom I could not have finished this research. Thank you for joining in this study.

I owe my parents an unrepayable debt of gratitude for their unlimited love and support over the years. This work is dedicated to you with my love. Thank you, mum and dad. I have continually missed you so much since the last time I left home. It was two years ago, and nobody could imagine that a nightmare virus would change the world.

Finally, I am obliged to say thank you to caffeine! Without your enlivening presence in the countless cups of tea and coffee I have drunk over these last few years, I literally could not have managed this work.

## **Abstract**

China has experienced an economic boom in recent decades, but explosive growth has led to serious social and environmental problems. Although the Chinese government has made great efforts to improve matters and to promote CSR, severe problems remain. In this context, little attention has been paid to the CSR performance of SMEs, despite the fact that SMEs are important components of the economy and are closely linked to people's everyday lives. This research aims to enhance our understanding of Chinese SME CSR, to investigate which stakeholders influence CSR decisions, and to probe the factors which cause the widespread failure of SME CSR in China.

To inform the research, thirty semi-structured interviews were undertaken in Shandong province, in northern China. Six SMEs in the secondary sector of the Chinese economy were selected. They contribute to two major problems which currently afflict China and its people: environmental pollution and poor labour protection. The findings suggest that Chinese SME CSR is mostly state-led and partially society-driven. While owner-managers of SMEs undertake CSR activities, they merely follow the requirements of powerful stakeholders rather than internalise CSR as an effective management tool. Moreover, the research reveals that the lack of key resources, CSR awareness and management knowledge combined with uncertain policies and lax law enforcement are the major barriers to Chinese SME CSR.

This thesis contributes to the CSR field in three key aspects. First, it provides a clear understanding of Chinese SME CSR, including its definition, current level, motivations, and obstacles. Second, its contextualisation of the MAW-1997 not only addresses the question of who and what really counts for Chinese SME CSR, but it also enriches the stakeholder identification and salience model by generating valuable new empirical evidence. Third, it uncovers the important role of the institutional context in developing or constraining SME CSR activities and the involvement of stakeholders.

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## List of Abbreviations

<b>CSR</b>	Corporate Social Responsibility
<b>CPC</b>	Communist Party of China
<b>EPB</b>	Environmental Protection Bureau
<b>EU</b>	European Union
<b>HRSSB</b>	Human Resources and Social Security Bureau
<b>GDP</b>	Gross Domestic Product
<b>MAW-1997</b>	Mitchell, Agle, Wood (1997)
<b>MNC</b>	multinational corporation
<b>PBoC</b>	People's Bank of China
<b>SASAC</b>	State-owned Assets Supervision and Administration Commission of the State Council
<b>SME</b>	small and medium-sized enterprise
<b>SHSE</b>	Shanghai Stock Exchange
<b>SOE</b>	state-owned enterprise
<b>SZSE</b>	Shenzhen Stock Exchange
<b>the UK</b>	the United Kingdom
<b>the US</b>	the United States of America
<b>WBCSD</b>	World Business Council for Sustainable Development

## **Decalaration**

*I, Xiaochen Zhang, confirm that the Thesis is my own work. I am aware of the University's Guidance on the Use of Unfair Means ([www.sheffield.ac.uk/ssid/unfair-means](http://www.sheffield.ac.uk/ssid/unfair-means)). This work has not been previously presented for an award at this, or any other, university.*

# **Chapter 1: Introduction**

## **1.1 Background**

In the past four decades, China has experienced a sustained economic boom with further relatively rapid growth predicted in the years ahead. According to the World Bank's database (2021a), China's Gross Domestic Product (GDP) increased from US\$191.149 billion in 1980 to US\$14.723 trillion in 2020. The result has been that the living standards of the Chinese population have also risen dramatically. However, the explosive growth has imposed certain costs on Chinese society and the country's natural environment (Bai et al., 2015). Specifically, environmental degradation, natural resource depletion, atmospheric pollution, and labour problems are all clearly evident in contemporary China (Cooke, 2005, 2011; Matus et al., 2012; Song et al., 2013; Zhao, 2014).

To ameliorate the increasing environmental damage and societal problems caused by economic development, it has been suggested that companies should take more social responsibility rather than simply pursuing profits. In this context, Corporate Social Responsibility (CSR) was first regulated in China's Company Law in 2005 (Standing Committee of the National People's Congress, 2005, chaps 1, Article 5). There are also other hard laws that contain provisions that seek to incentivise CSR practices, e.g., Environmental Protection Law which was enacted in 2015, the updated Labour Law that was enforced in 2018, and Labour Contract Law which revised in 2012, as well as a number of soft laws, e.g., the guidelines published by the Shenzhen Stock Exchange (SZSE) and the Shanghai Stock Exchange (SHSE).

Nevertheless, the overall situation concerning CSR performance in China is far from ideal and severe challenges for environmental protection and labour protection remain (Miao et al., 2015; Tang et al., 2018). As the main contributor to the national economy, Small and Medium-sized Enterprises (SMEs) comprise 90% of all companies in China (State Taxation Administration, 2020). Furthermore, they account for 60% of the total GDP, 50% of the country's tax revenue, and 80% of labour force employment (Jia et al., 2020). Given the importance of SMEs demonstrated by these statistics, it is rationale to suppose that they ought to play a crucial role in the development of CSR in the

Chinese context. However, as this study will demonstrate, SMEs often perform extremely poorly in terms of CSR. Hence, the fundamental motivation for this research is to understand why the Chinese government's efforts to foster CSR are not yielding the desired results, particularly from the perspective of SMEs.

## **1.2 Rationale, Justifications, and Originality**

In recent years, attitudes towards CSR have generally shifted from the concept being seen as relatively controversial to CSR being widely accepted by governments and multinational corporations (MNCs) (Horrigan, 2010; Orlitzky, 2015). In particular, it is increasingly believed that the successful adoption of CSR programmes will contribute to the sustainable development of societies across the world. As a result, growing numbers of countries and regions have established both soft and hard laws concerning CSR (Cominetti and Seele, 2016; Tamvada, 2020) which, among other things, mean that companies are now often required to publish CSR reports, implement CSR activities and address the externalities caused by their operations.

However, despite the growing support for CSR, it remains a voluntary practice for SMEs in most contexts given the limited resources that these enterprises typically possess (Jenkins, 2004; Murillo and Lozano, 2006). In terms of the international literature, while there is a growing body of research concerning the CSR of large companies, there has been less attention paid to SME CSR. However, this situation is changing, and in recent years there have been a number of studies that have sought to reveal the characteristics of SME CSR practices and the main motivations and obstacles for SME CSR (Jenkins, 2006; Perrini, 2006a; Coppa and Sriramesh, 2013; Jamali, Lund-Thomsen, and Jeppesen, 2017). For instance, through a literature review of SME CSR research conducted over the last decade, this study will show that the personal values of SME owner-managers and pressure from stakeholders are the primary motivations for SME CSR (See Table 1). In terms of obstacles, lack of CSR awareness, limited resources, and problems relating to government, e.g., less government support relative to large companies, uncertain policies, and immature legal frameworks, discourage SME CSR (See Table 1 also).

This thesis has evaluated current practices and enhanced understanding of SME CSR

in China. Due to substantial differences in the social, political, legal and economic conditions of different countries, CSR practices take diverse forms in various national contexts. Given China's growing importance both as a unique object of study and also due to its growing influence on the rest of the world, how CSR is understood in China is a vital question. While, as noted above, there is a growing body of international literature concerning SME CSR, this topic in China has not yet been researched in detail. Specifically, there is no consensus on the definition of SME CSR in China and little understanding of the motivations and obstacles for CSR activities in the Chinese SME context. This research finds a unique social responsibility that Chinese SME CSR differs from other contexts', which is social stability. As for motivation and obstacles, they tend to be the same as other contexts. These findings not only add to our understanding of SME CSR in China but also offer data which will be extremely valuable from a comparative perspective and which should help shed light on SME CSR in other contexts.

In addition, contrary to most extant literature that focuses more on large companies and SOEs, this piece of work provides an original contribution to the field of SMEs in China. The research result explicitly shows a significant difference between barriers to large SOE CSR and private SME CSR, as SOEs tend to have fewer financial constraints on CSR adoption. Hence, the above newly added understandings of SME CSR offer empirical evidence to future related research and comparative research in other similar contexts as in China. For instance, SME CSR research in the country where the government also has strict control over the society, or where SOEs also dominate the national economy.

Moreover, this research contributes to SME CSR both theoretically and practically. With respect to the study's theoretical framework, the research is contextualised by the MAW-1997 (Mitchell et al., 1997) and the study confirms the applicability of the model in developing countries, by justifying the development of its attributes from the extant literature, e.g., adding the concept of probability to the urgency attribute, and by confirming the existence and influence of proximity on stakeholder identification, which thus improving the MAW-1997. As the first empirical case study research in Chinese SME CSR, the adoption of both the stakeholder theory and the institutional

theory allows me to dig out the hidden reasons for poor SME CSR in China, which also sheds light on future CSR research in the specified institutional context. Furthermore, by providing a comprehensive analysis of SME CSR, it aims to offer practical implications for policy makers and other government officials. In particular, the study's analysis will lay the ground for targeted policies to improve the development of SME CSR in China.

### **1.3 Research Aims, Objectives, and Research Questions**

This research aims to significantly enhance our understanding of Chinese SME CSR, to investigate various stakeholders' influence on SMEs' CSR decisions, and to probe the factors that result in the failure of SME CSR in the Chinese institutional context.

In order to pursue these research aims, the following objectives have been formulated:

1. To examine SME owner-managers' attitudes and understandings of CSR.
2. To investigate SME CSR practices and the current level of SME CSR in China.
3. To explore motivations for CSR practices and obstacles to CSR adoption
4. To examine the role of stakeholders in CSR implementation.
5. To investigate relevant attributes of stakeholder salience.
6. To evaluate the institutional factors that influence the identification and prioritisation of stakeholders and their claims.
7. To explore the role of Chinese national institutions in shaping or constraining CSR activities.

In light of these research aims and objectives, the main research question of this study is to identify the barriers that contribute to the failure of SME CSR in China. This main question is supplemented by several sub-research questions, which are as follows:

1. How do SME owner-managers perceive and practice CSR in the Chinese institutional context?
2. Who and what really counts in the organisational field of Chinese SMEs?
3. Why is a particular stakeholder salient or not? Why is a specific stakeholder attribute significant or not?



#### 4. How do China's political, financial and cultural systems influence SMEs' CSR decisions?

The rationale for developing the above sub-research questions is twofold. First, they are all designed to support the main research question and to provide data concerning different aspects of the research topic which when synthesised will provide a comprehensive answer to the main question. With respect to the first sub-research question, understanding the owner-managers' perceptions of CSR is one of the most significant tasks for this research, given that they are at the centre of CSR decision-making. In particular, the research aims to understand whether the failure of SME CSR is due to owner-managers' poor understanding of CSR, and also to understand to what extent owner-managers, according to their unique points of view, believe that they have achieved what they perceive CSR to be. Meanwhile, investigating the motivations and obstacles for SME CSR is essential to address whether the failure is caused by a specific missing driving force, and to better understand from the perspectives of owner-managers the difficulties that impede them from undertaking CSR activities. As for the second sub-research question, the identification of who comprises SME's influential stakeholders with regards to CSR and what attributes influence the identification of these stakeholders are key to understanding whether the failure of SME CSR is caused by the absence of a particular stakeholder's influence or the lack of a particularly critical attribute in the given institutional context. In the same vein, the third sub-research question addresses the underlying reason of how owner-managers identify and prioritise stakeholders' claims. If a certain stakeholder or a stakeholder's claim is supposed to be influential to CSR decision-making but is not considered so by owner-managers, the reason for this could help to explain the failure of SME CSR. Concerning the final sub-research question, in line with what Campbell (2007) and Matten and Moon (2008) suggested, successful CSR adoption requires an institutional context to possess certain characteristics. The lack of necessary institutions is thus supposed to be one of the reasons that may illustrate the failure of SME CSR in China.

Second, the four sub-questions follow a logical what-why sequence. Specifically, the first sub-research question underpins the other three, as it aims to provide data on *what* CSR activities have been undertaken and what have not. The following three questions

are then designed to identify *why* those CSR behaviours have been performed but others have not. In addition, the following three sub-research questions are the result of the study's theoretical framework, given that as managerial stakeholder theory and institutional theory suggest, an organisation's behaviour comes in response to influential stakeholders' expectations within the organisational field, and is shaped, mediated, or constrained by national institutions (Wooten and Hoffman, 2008) and also that this is a two-way relationship with stakeholders affected by the surrounding institutional environment (Scott, 2008; Jamali and Neville, 2011). In this regard, the third sub-research question is designed to explain the results of the second sub-research question, and the results of this question are then intended to be interpreted by the fourth and final sub-research question.

#### **1.4 Thesis Structure**

This thesis contains eight chapters. **Chapter 1** is this Introduction which summarises what this research comprises, why the topic has been chosen, and how this research has been conducted. It starts with the background of this research. This is then followed by the rationale for choosing the topic, including a brief discussion of extant literature on the topic, the identification of research gaps, and the possible theoretical and practical contributions that the study will make. The chapter then details the study's research aims, objectives, and questions. The last section outlines how this research is organised, through a brief overview of each chapter.

**Chapter 2** reviews three strands of literature relevant to CSR: 1) the evolution of CSR; 2) SME CSR in the last decade; and 3) the development and implementation of CSR in China. More specifically, it starts with a critical discussion of the definition of CSR, as well as the internal and external motivations for CSR adoption as part of corporate strategy. Then, through the major theoretical and conceptual debates on CSR and examples of how CSR is increasingly being incentivised and, in some cases, mandated through soft laws and hard laws, it demonstrates how CSR has transformed from a purely voluntary activity to become more or less obligatory for companies. The next section provides an understanding of how CSR has evolved in the SME field over the last decade, including its characteristics and the motivations and obstacles for SME CSR. Finally, this chapter presents the current state of CSR in China and how CSR

relates to SMEs in this specific context. Taken together, these strands reflect the development of CSR and highlight research gaps regarding our understanding of this topic, and the motivations and obstacles for CSR in the Chinese SME context.

**Chapter 3** introduces the theoretical framework for this research. In the first section, stakeholder theory and institutional theory are applied as a lens to understand SME CSR practices in China. In particular, this section highlights how stakeholder theory addresses the limitations of institutional theory, given that institutional theory focuses more on similar organisational behaviours led by embedded institutions rather than the nuances of the corporate behaviours caused by certain conflicts of interests between stakeholders within the organisational field. In this regard, it demonstrates that the identification of who and what really counts in terms of decision-making is critically important. The suitability of the MAW-1997 model proposed by Mitchell et al. (1997) is then reviewed through its application to CSR research and is put forward as one of the study's theoretical frameworks. The other framework is the CSR and institutional context proposed by Matten and Moon (2008), which emphasises how National Business Systems (NBSs) and the organisational field influence company's CSR decisions. Taken together, the integration of the two models form the theoretical framework to investigate the broad range of political, financial and cultural institutions and stakeholders that affect the perceptions of and decision-making about CSR in the Chinese SME context.

**Chapter 4** presents the discussion and justification of the methodology adopted in this research. It starts with the rationale for choosing a qualitative research approach from both the philosophical perspective and from consideration of the extant CSR literature. Then, it describes the methods adopted, including the data collection method, sampling strategies, and the analytical tool. Ethical considerations concerning the research are discussed in the final section of the chapter. Specifically, the research comprises a multiple qualitative case study conducted in Shandong province. Before the main study, two pilot cases were conducted to identify problems and deficiencies with the research design. Then, six SMEs in the secondary sector of the Chinese economy with poor CSR track records formed the formal case study. Participants included six owner-managers of the companies, three employees from each company, and six staff members from

different government departments. Having acquired data via 30 semi-structured interviews, thematic analysis was applied to analyse the results of the six cases. The chapter confirms that all procedures, including the recruitment of participants and the data processing, were ethically approved by the University of Sheffield before the fieldwork commenced. It also confirms that all participants voluntarily joined the research and before the interviews were fully informed about all aspects of the study and their right to withdraw at any time without providing a reason.

**Chapter 5** presents the research findings pertaining to the first sub-research question, i.e., how do SME owner-managers perceive and practice CSR in the Chinese institutional context? To best reveal their complexity and to provide a deep understanding of each case, the six individual cases are firstly analysed under four theoretical categories, i.e., understanding of CSR, specific actions and level of CSR, motivations for CSR, and barriers to CSR. The findings are entirely dependent on the words and expressions of the owner-managers, employees and officials. Numerous verbatim quotes are provided to illustrate the key points. Then, cross-case analysis is presented to further synthesise the data generated from the within-case analysis.

**Chapter 6** addresses the second sub-research question, i.e., who and what really counts in the organisational field of Chinese SMEs? It is divided into two main parts. The first part presents the results concerning stakeholder influence drawn from the within-case analysis and cross-case analysis. Following the understanding of owner-managers, the second part assesses and refines the MAW-1997 within the Chinese institutional context. This part comprises four sections which evaluate four attributes concerning stakeholders' claims respectively and comes to a final judgement about what matters to the identification of stakeholder salience and the prioritisation of stakeholders' claims. The chapter verifies the dynamism of the MAW-1997 before arriving at the conclusion concerning the flow of attributes and how this influences stakeholder identification and prioritisation.

**Chapter 7** discusses the research findings in light of the MAW-1997 in the Chinese contextual environment, with a special focus on how historically grounded national institutions influence the role of stakeholders in CSR implementation. To be specific,

it assesses in detail how political institutions, i.e., the state governance system and the legal system, financial institutions, and cultural institutions, i.e., social norms, customs, and the education system, affect the way that owner-managers consider their stakeholders, their impact on access to resources, and thus their influence on CSR decision-making. Finally, it discusses how China's national business system directly influences SMEs' owner-mangers' CSR decisions.

**Chapter 8** summarises the key findings of this research and addresses the general research objective of understanding the barriers to SME CSR in China. This is followed by an outline of the main study's contributions. It ends by discussing the limitations of the study and recommendations for future research.

## **Chapter 2: Literature Review**

### **2.1 Introduction**

This chapter provides a historical and theoretical narrative summarisation of CSR, why it is generally accepted and practically implemented, how it has evolved, particularly in relation to SMEs, and how it has been adopted specifically in the Chinese context. The chapter will begin by setting out the rationale for integrating the definitions of CSR provided by the World Bank and the World Business Council for Sustainable Development (WBCSD) with Carroll's CSR pyramid and the ISO 26000 standard. Then, from the perspective of the company, intrinsic and external motivations for the adoption of CSR are examined. The following section, through two famous debates, evaluates how academics perceive CSR and whether companies should aim to be socially responsible or whether they should purely pursue profits. Following this the chapter will discuss how CSR, as a commonly recognised concept, has evolved from initially being a voluntary activity to something that is now increasingly mandated by a variety of soft laws and hard laws in different contexts. The chapter then reviews the key findings from the CSR literature that have emerged over the last decade before providing a summary of the latest understanding of how CSR is developing in the SME field. After this, the motivations and barriers to SME CSR in various contexts and the frequently adopted methods of SME CSR are presented in detail. In the final part of the chapter, the development of CSR in China and the extant literature on Chinese SME CSR is critically evaluated. Taken together, this literature review will highlight the research gaps concerning our present lack of understanding concerning what CSR means to Chinese SMEs and what motivations and barriers exist for Chinese SMEs in relation to CSR.

### **2.2 Definition of CSR**

#### **2.2.1 General Definition**

Although 'Corporate Social Responsibility' has become a widely used concept that is frequently deployed in academic articles and corporate reports, its precise meaning is unclear and there remains no consensual definition. Indeed, Campbell used the word "impossible" to describe the difficulties in identifying an agreed meaning due to the

various different ways in which the term has been used since it was first coined (McBarnet et al., 2007, p. 532). Existing definitions are not well-accepted by scholars, and new interpretations are often regarded simply as add-ons (Rühmkorf, 2015). The multi-dimensional and cross-disciplinary nature of CSR contributes to the complexity. First, CSR is a concept that can be viewed from different angles, e.g., there are business, management, and legal perspectives (Horrigan, 2010, p. ix), and the multifaceted nature of the concept complicates any attempt to provide a general definition within a single area. Second, CSR is relevant to ‘society’, and its application to various social contexts have led to continuing changes to its meaning. For instance, while in the 1960s Davis (1960, p. 76) described CSR in relatively simple terms as comprising the decisions and actions which companies take beyond their original economic or technical interests, in subsequent decades other definitions have added more complexity and specificity. This can be seen in the Confederation of British Industry’s (CBI) 2001 definition that CSR requires companies not only to be responsible for their financial performance, but also for their impact on society and the environment (Rühmkorf, 2015, p. 10), and from Elkington (1997, p. 2) who developed the sustainable view of CSR which emphasises the importance of social justice beyond economic success and environmental excellence to incorporate human rights protection, which has famously become known as the ‘Triple Bottom Line’. Third, since the term CSR first appeared a lot of related terminology has developed which adds to the confusion, e.g., corporate philanthropy, corporate citizens, public responsibility, and public policy. Take corporate philanthropy as an example. If CSR is defined merely as philanthropy in the way understood by most people, problems will inevitably arise. For instance, a company could, on the one hand, make profits of billions of dollars in a way that disregards human rights and the environment, but on the other hand, donate a hundred million dollars to society and subsequently claim to be a socially responsible corporation. This is a total reversal of what CSR means. Fourth, CSR is jurisdiction-orientated, and how it works in developed countries differs from the context of developing economies (Horrigan, 2010, p. 37). Also, the rationale that companies adopt regarding CSR is often different from that of politicians and the public. Critics of CSR assert that governments force businesses to take extra ethical responsibilities beyond profit-making, and thus help governments tackle societal problems which should be managed by governments themselves (Horrigan, 2010, p. 38).

Since there is no single definition of CSR which is accepted by all CSR researchers, this thesis firstly adopts the definitions provided by the WBCSD and the World Bank. This approach is reasonable as these definitions are considered to be relatively authoritative and valid by most CSR researchers (Michael, 2003). Specifically, the WBCSD defines CSR as, “the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as the local community and society at large” (World Business Council for Sustainable Development, 2000, p. 8). In a similar vein, the World Bank describes CSR as, “the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve the quality of life in ways that are both good for business and good for development” (Ward, 2004, p. 3).

Although the WBCSD’s definition has been criticised for omitting an environmental dimension (Dahlsrud, 2008), and the World Bank’s for disregarding an organisation’s condition in a way that neglects the fundamental economic responsibility of the company (Idowu and Filho, 2009), the definitions manage to set out general expectations of CSR effectively and avoid trying to proscribe how CSR is practised in the specific context of companies. Therefore, despite the criticisms, the definitions are suitable for the purposes of this thesis as a means of initially elaborating the fundamental tenets of CSR. However, it is also important to recognise that when conducting research into CSR, the minimum level and the optimal circumstances of social responsibilities should also be carefully scrutinised. Given this, Carroll’s (1991) CSR pyramid will be used to supplement the two definitions of CSR provided above.

### **2.2.2 CSR Pyramid**

Carroll (1991, p. 40) conceived CSR as a pyramid that includes four elements: economic, legal, ethical and philanthropic responsibilities. Economic responsibility, the first layer of the CSR pyramid, requires companies to be profitable, and to be consistently profitable, because this is the primary motive of corporations. Put simply, it is argued that without profit-making, firms cannot be firms. Furthermore, economic responsibility is the first layer because the other responsibilities are all based upon it.



Specifically, it is increasingly recognised that while economic responsibility is necessary for companies to be responsible it is not sufficient on its own. Instead, companies must also fulfil the so-called 'social contract' between themselves and society. For example, it is expected that companies will achieve their economic goals within the framework of the law. Therefore, the second layer is legal responsibility. Being a law-abiding corporate citizen is of great significance for businesses as they must act consistently with various federal, state and local laws and regulations. Companies also need to meet the minimal legal requirements when they provide goods and services. On top of economic and legal responsibilities, the third level is ethical responsibility. In particular, ethical responsibility embraces the higher standards, social norms and expectations that shareholders, consumers, employees, the community and other stakeholders wish the company to achieve. These higher standards or expectations are what society hopes businesses fulfil beyond their primary responsibilities. Even though it is challenging for companies to satisfy higher expectations, from Carroll's perspective, ethical responsibility is the next layer of the CSR pyramid as it broadens and expands the more narrowly defined legal responsibility. Since workers' rights and the protection of consumers were legislated for before environmental protection, they are earlier standards and are the core expectations of the public. On the topmost layer of the pyramid is philanthropic responsibility, which is the public expectation that companies should improve social welfare and be decent corporate citizens. For example, companies are expected to participate in charitable activities and to donate to local communities' educational institutions. Philanthropic responsibility is closely linked to ethical responsibility but is more discretionary in nature. For example, while companies may be expected to contribute to human development, if a firm does not do so it will not necessarily be criticised for being unethical. In this sense, philanthropic responsibility is desirable but less significant than the other three responsibilities.

As a more specific definition than the WBCSD and the World Bank's statements, Carroll's pyramid divides social responsibility into four dimensions and ranks them in order. However, it is important to note that the CSR pyramid model varies across different cultural, religious, and geographic contexts. For instance, research in Europe and the US shows that philanthropic responsibility is more obligatory, and that ethical responsibility is higher in Europe than in other settings (Crane and Matten, 2007).

Furthermore, it has been shown that in Africa while economic responsibility is also seen to be the most fundamental corporate responsibility, legal responsibility is not the second most important responsibility as is the case elsewhere. This is due to the often-poor legal environment that exists across much of the continent. Therefore, in Africa, philanthropic responsibility is given the second-highest priority, legal responsibility the third and ethical responsibility comes last (Muthuri, 2013). As such, Carroll's pyramid must be carefully re-examined when conducting research in different contexts, something that is unquestionably necessary for the current study which focuses on Chinese SMEs. Furthermore, it is also important to recognise that although Carroll's pyramid is more comprehensive than the two previously cited definitions, its four dimensions can be critiqued for being relatively vague, particularly as they make no reference to specific business activities. Given this, there is a clear need to introduce an additional, more precise framework to enhance the definition of CSR.

### **2.2.3 ISO 26000 Standard**

The Geneva-based International Organisation for Standardisation (ISO) has developed, "one of the most eagerly awaited ISO International Standards of recent years for CSR" (Hemphill, 2013, p. 305), the so-called the '*ISO 26000:2010, Guidance on Social Responsibility*' (hereafter ISO 26000 standard). It defines CSR as the:

"responsibility of an organization for the impacts of its decisions and activities on society and the environment, through transparent and ethical behaviour that: contributes to sustainable development, including health and the welfare of society; takes into account the expectations of stakeholders; is in compliance with applicable law and consistent with international norms of behaviour; and is integrated throughout the organization and practised in its relationships" (ISO, 2010, p. 7).

Specifically, there are seven areas at the heart of the ISO 26000 standard: organisational governance, human rights, labour protections, the environment, fair business operations, consumer matters and community participation and development (Duckworth, 2010, p. 7). Furthermore, there are seven crucial principles: accountability, transparency, ethical behaviour, adherence to stakeholder interests, adherence to the rule of law, adherence

to international norms of behaviour, and adherence to human rights (Duckworth, 2010, p. 7). The ISO 26000 standard is the result of a deliberative process that involved 450 experts, 210 representatives of the ISO participant countries, and 39 Independent European or European-based international sectoral organisations (Hemphill, 2013, p. 306).

Unlike the ISO 9001, ISO 14001, and SA8000 which are management systems standards that can be directly applied for certification, the ISO 26000 standard is a set of voluntary guidelines that aim to provide a generally accepted definition of what CSR implies, to offer principles for enterprises who wish to enhance their CSR, and to promote the development of CSR in worldwide contexts (Hemphill, 2013, p. 306). As such, it is not a certification requirement or an assessment instrument for use by third parties. Duckworth and Moor (2010, p. 7) have praised the ISO 26000, as a key supplement for social responsibility performance.

Since the ISO 26000 standard is not a systematic management standard, some scholars have criticised it for being ineffective in helping companies to develop a CSR management system (Hahn, 2013). Furthermore, before the standard was published, there were opposing voices who stated it would be too inclusive to be applied as an effective management instrument and would be especially challenging for SMEs which tend to have limited resources (Perera, 2008, p. 3). Nevertheless, although there are overlaps between, for example, labour practices and human rights, the ISO 26000 standard is designed to provide detailed guidelines for corporate behaviour that cover all seven aspects listed above, with no area neglected. Moreover, even though the ISO 26000 standard has been questioned for one standard fits all companies worldwide, and disparaged for being symbolic rather than being effective in producing actual outcomes (Schwartz and Tilling, 2009, p. 296), in this dissertation, the ISO 26000 standard is used as an important complement for the WBCSD and the World Bank's definitions, and Carroll's CSR pyramid. In particular, it is valuable for this purpose as it provides more detailed information on CSR principles and ethical corporate behaviours. Furthermore, combining it with the other three definitions allows the study to adopt a broad view of CSR with specific business activities embedded in it. This is essential for assessing whether the enterprises that are the focus of this research are socially

responsible.

### **2.3 Driving Forces of CSR**

With the emergence of CSR and its global development, there has been a trend of companies adopting CSR policies (Dillard et al., 2013, p. 7). The rationale behind managers' decisions to participate in CSR practices can be categorised into two groups. According to Graafland and Van de Ven (2006), there are intrinsic motivations and extrinsic motivations, which comprise moral obligations and strategic approaches respectively.

First, managers' values and beliefs motivate proactive CSR practices (Hemingway and Maclagan, 2004, p. 34). CSR is not always driven by strategic thinking about profit-making, but pure altruism is also not a common primary motivation (Moon, 2001, p. 38). Even though it is often difficult to differentiate between altruism and self-preservation, one cannot deny the effectiveness of moral values at least superficially (Rollinson, 2002, p. 42). Also, as CSR has become integrated into higher education and professional education across the globe, it has affected the personal values of students who will become managers and those of existing managers who undertake professional development training, which contributes to future CSR decision-making (Setó-Pamies and Papaoikonomou, 2020).

The second driving force is pressure from society at large. Concerns about reputation and potential harm to shareholder value push executives to meet public expectations, even when CSR is not required by legislation (Anon, 2006). The growth of Non-Government Organisations (NGOs) and their focus on environmental and human rights protection has resulted in various campaigns and much publicity (McBarnet et al., 2007, p. 15). CEOs have to be cautious in their public statements and how they deal with irresponsible behaviour, or they may be publicly excoriated. Another factor that increases social pressure is globalisation, including the emergence of the internet and the popularity of social media platforms, which have made the world more transparent. Specifically, there are fewer hiding places for unethical corporate behaviour due to increased global online communication and any misconduct may become instantly known and criticised on an international scale. Furthermore, employees are another

societal driver that promotes CSR. Employees not only wish their firms pursue such activities to increase their workplace satisfaction, but collectively trade unions want to protect employees' legitimate rights from being violated and increase benefits like healthcare and welfare.

The third reason for firms implementing CSR is market pressure from consumers and investors who increasingly care about firms' reputations. The CSR consumer market like the consumption of fair-trade products has grown significantly with the development of CSR. For instance, sales of fair-trade products in the UK rose by 265% from 2002 to 2005, and reached £230 million in 2005 (McBarnet, 2009, p. 12). In 2006, the Co-operative Bank stated there had been an 11.4% rise in the UK ethical consumer market compared to the previous year (McBarnet, 2009, p. 12). Furthermore, the UK organic food market doubled from 2000 to 2005, and reached £1.6 billion in total sales in 2006 (McBarnet, 2009, p. 12). According to the latest report from the Guardian (2020), this rose to £2.45 billion in 2020. As shown by a survey conducted by US LRN on consumer ethics, 70% of US consumers stated they have decided not to buy products or services from firms which they believe are unethical (McBarnet, 2009, p. 11). For instance, such a trend was evident in the boycott of Nestle products (Boyd, 2011). In terms of investors, it is clear many now take social responsibility into account when assessing firms rather than solely focussing on financial performance. The FTSE4Good Index of the Financial Times Stock Exchange Index (FTSE) was established in the UK in 2001 with the key criterion based on corporations' social responsibility, while the Dow Jones has applied the similar Sustainability Index in the US. Both indices push companies to meet higher standards and drop companies that fail to meet responsibility criteria. During its first three years the FTSE4Good Index dropped 87 companies, and to promote continued investment, 53 companies were forced to adopt higher requirements expected by institutional investors due to their membership of the index. Also, the need for information disclosure for both consumers and investors forces managers to publish CSR reports. Corporate image management considers CSR reporting as an effective tool to deliver messages to stakeholders (especially customers and investors), and to maintain competitive market positions and ensure continuing stakeholder trust (Hemingway and Maclagan, 2004, p. 35).

The fourth driving force is the development of the CSR industry. Apart from socially responsible investment (SRI) institutions, there are CSR consultancies that fulfil numerous functions such as providing companies with policy advice, offering relevant training programmes, and helping to draft codes of conduct. Furthermore, there are CSR standard-setting organisations and CSR reporting certification companies which appraise adherence to CSR guidelines and contribute to CSR reports, CSR law firms which provide services to help ensure adherence to legal and regulatory frameworks, and companies which organise CSR conferences and publish CSR newsletters (McBarnet, 2009, p. 15). Consequently, CSR itself has become a market and this contributes to its development.

Coercion from governments and legislation is the fifth motivating factor for CSR. Indeed, since 2011 CSR is no longer a voluntary practice after the European Commission (2011a) published a five-year CSR strategy. This strategy proposed a new definition for CSR, which states that CSR is, “the responsibility of enterprises for their impacts on society” (European Commission, 2011a, para. 3.1). From this time, the Commission (2011a, para. 3.1) has required companies to integrate, “social, environmental, ethical, human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders”. In addition, before CSR was officially written into law as a comprehensive set of requirements, various other legislation had already established certain social standards for enterprises. For instance, it has long been established that companies must meet the requirements of domestic laws, e.g., company law, environmental protection law, human rights law, consumer protection law, and other rules which regulate business activities, as well as international treaties and agreements. If they fail to do so, organisations face punishment, and managers are even at risk of jail.

Although the above five drivers are the main factors in companies adopting CSR, they vary in different cultural, regional, environmental, economic, political and institutional contexts where CSR is implemented (Yin and Zhang, 2012). Whether particular drivers are relevant to CSR development and how they materialise must therefore be carefully analysed according to specific contexts.

## 2.4 Critical Debates on CSR

The development of CSR has been beset by controversy. The core question of various debates is the purpose of the corporation. In this section, two famous debates about CSR will be reviewed. The first concerns an argument between two legal scholars in the 1930s and the second followed a famous economist's statement made in the 1960s, and extends to the economic, legal, and management fields of the early 21st century.

### 2.4.1 The Berle vs. Dodd Debate

The first debate is the so-called the Berle vs. Dodd Debate, which happened in the 1930s, with the Harvard Law Review acting as its main theatre (Horrigan, 2010, p. 88). On one side, Adolf Berle (1931), a Columbia corporate law professor, proposed a theory which stated that the sole purpose for establishing a corporation is to generate profits for shareholders. On the other side, Harvard law professor, E. Merrick Dodd (1932), argued that as an economic institution, a corporation needs to fulfil both social and economic functions. (Dodd E. Merrick, 1932, p. 1148) argued in his well-known article '*For Whom Are Corporate Managers Trustee?*' that:

“[this writer] believes that public opinion, which ultimately makes law, has made and is today making substantial strides in the direction of a view of the business corporation as an economic institution which has a social service as well as a profit-making function, that this view has already had some effect upon legal theory, and that it is likely to have a greatly increased effect upon the latter in the near future.”

Dodd's (1932, p. 1152) key argument was that the new trend for capitalism should be one where the income of corporations is distributed to society to maintain social stability. Furthermore, he (1932, p. 1155) believed the corporate governance should take employees and the public into consideration alongside stockholders.

In response to Dodd's argument, Berle (1932, p. 1367) replied:

“Now I submit that you can not [sic] abandon emphasis on 'the view that

business corporations exist for the sole purpose of making profits for their stockholders' until such time as you are prepared to offer a clear and reasonably enforceable scheme of responsibilities to someone else.”

Berle (1932, p. 1367) argued that neither bankers nor lawyers, nor even the law would force managers to be socially responsible. He (1932, p. 1372) surmised at the end of his article:

“Unchecked by present legal balances, a social-economic absolutism of corporate administrators, even if benevolent, might be unsafe; and in any case it hardly affords the soundest base on which to construct the economic commonwealth which industrialism seems to require. Meanwhile, as lawyers, we had best be protecting the interests we know, being no less swift to provide for the new interests as they successively appear.”

Yet, despite his remarks, Berle was not an opponent of social responsibility and although he stood on the other side against Dodd, he hoped that corporate law could cover CSR in the future (Wells, 2002, p. 95). Berle wanted to achieve dual targets of shareholder protection and the management of corporate power. To do this he believed it was best to adhere to shareholder primacy, and to leave social responsibility until later. Such was the significance of Berle and Dodd’s debate, it laid the foundations for other CSR debates for the rest of the century (Wells, 2002, p. 83).

#### **2.4.2 Friedman and Subsequent Debates on CSR**

Since Berle and Dodd’s argument on the roles of corporations and managers within social contexts, there have been ongoing debates about corporate social responsibility. For instance, several legal scholars have argued that CSR is an ineffective tool to increase income and results in a heavy burden on businesses (Wells, 2002, p. 123). One of the most famous critics of CSR, is Milton Friedman (2002), a recipient of the Nobel prize for economics. Friedman wrote a well-known book called ‘*Capitalism and Freedom*’ in 1962 in which he argued that the basis of the company is to make as much money as possible for stockholders. He also made a famous statement that sought to set the boundary for corporations and managers:



“there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition, without deception or fraud” (Friedman, 2002, p. 133).

Friedman explicitly refused to take the whole of society into consideration. Instead, he urged managers to only pay attention to rules within their legal boundaries. Moreover, he argued for discarding legislation that contained legal obligations for corporate social responsibility, since he believed such rules would likely damage shareholders’ interests (Horrigan, 2010, p. 92).

Friedman sought to build on his previous arguments in an article published in September 1970. The article, ‘*The Social Responsibility of Business is to Increase its Profits*’, made clear his attitude towards the purpose of the company (Friedman, 2020). He argued that CSR not only reduces the efficiency of profit generation but is actually immoral for its effect of distributing resources to social constituents other than shareholders (Wells, 2002, p. 124). Specifically, he stated that as long as there is a justified competitive environment without fraud or deception, the only social responsibility of a company is to make use of its resources to make profits (Friedman, 2002, p. 133). Friedman conceptualised managers as agents who have a sacrosanct duty to pursue the interests only of the corporation and its stockholders. He justified this position by arguing that the capital managers control belongs to stockholders and therefore if a manager decides to spend money on CSR, that constitutes a violation of their duty as agents (Friedman, 2002, p. 133).

However, as Carroll (1991, p. 46) pointed out, Friedman’s argument is actually compatible with three levels of his CSR pyramid: the economic, legal, and ethical levels. For Carroll, Friedman merely rejected the philanthropy part. When managers increase shareholder value, Friedman set out a restriction, which relates to conforming to the basic rules of society. Specifically, when making profits, managers should obey the rules embodied in law and ethical customs. Generally, Friedman had no issue with CSR policies when they are beneficial to increasing shareholder value. What he rejected was

any social expenditure that failed to benefit the company.

It might be assumed that many stockholders would be entirely supportive of Friedman's position but, in fact, many stockholders and managers believe that companies should spend money on CSR measures. However, this belief isn't simply driven by altruism and managers often implement CSR to increase the financial performance and the value of the company (Salazar and Husted, 2009). As Vogel (2006) noted, the reason why firms are becoming more responsible is not because managers are now more public-spirited, but rather it is because they believe that being a better corporate citizen will increase their firm's competitiveness.

Sir Adrian Cadbury (2002), a leading corporate governance expert, who is well-known for his '*Cadbury Code*', put forward his thoughts which go against those of Friedman with regards to corporate governance and responsibility in the 21st century. Specifically, Cadbury (2002) argued that it is necessary to take a long-term business perspective and that this not only requires a combination of financial and social concerns but also that investment in people and companies involves both social and commercial judgments. Furthermore, Cadbury (2002) proposed that shareholders have different perspectives on the management of companies and the distribution of their capital. In particular, Cadbury repudiated Friedman's claims that all shareholders have a common objective to maximise corporate wealth generation and stated that considering the interdependency between societal, governmental and business interests, companies are not independent and cannot be detached from their communities. Therefore, given these criticisms a strong case can be made that Friedman's perspective on CSR lacks validity as under certain conditions, serving social interests is helpful for profit-making. It is for this exact reason that more and more large companies are prioritising CSR and in particular their stakeholders' interests (Melé, 2009, p. 12).

Unlike proponents of CSR in the 21st century, sceptics like the former OECD chief economist David Henderson (2001) describe CSR as a misguided virtue. Specifically, Henderson argued that the external pressure put on companies by public opinion and CSR-focussed NGOs undermines the basis of the market economy. He stated that the public and NGOs are trying to humanise capitalism and globalisation, but that these

pressures give businesses a newly defined mission which requires them to be a principal player in achieving public policy objectives and making the world a better place. Henderson (2001, p. 105) asserted that this kind of corporate citizenship embraces an agenda of “global Salvationism” in giving capitalism “a human face” and by doing so leads to a new collectivism, which causes a harmful systemic impact on profit-making and performance. Moreover, Henderson (2001, p. 161) stated that the notion of sustainable development is ill-defined and far from generally accepted. His argument suggests the connection between CSR and profit-enhancement is exaggerated, and this presumed connection underestimates the costs to businesses and other negative consequences. For instance, he argued that by adopting CSR procedures, businesses might encounter costly bureaucratic complexity due to the time-consuming negotiation and recruitment of accounting and reporting experts necessary to implement and monitor CSR programmes. Therefore, Henderson regards CSR as a backwards step in business development, profit-making and social prosperity since CSR tries to establish a brand-new order of societal governance, which damages the core function of businesses (Horrigan, 2010, p. 116).

Besides Henderson, another prominent critic of CSR is Professor Robert Reich (2008, p. 5), the former Secretary of Labour in the Clinton administration. Reich has argued that it is extremely difficult for companies to practice CSR in the era of ‘supercapitalism’. Specifically, he stated that supercapitalism requires corporations to be competitive and to not do anything which might lower their profits. Therefore, according to Reich (2008, p. 169), companies should not pursue any CSR activities. Moreover, he stated that corporations do not have the obligation to be good and although they may wish to act well to improve their brand image and boost their profitability, they should not do so just because they are expected to (Reich, 2008, p. 124).

However, from Horrigan’s perspective, Reich’s views on CSR are narrow and outdated (Horrigan, 2010, p. 119). For instance, he argues that there are meaningful elements of modern CSR that go well-beyond the traditional approach that prioritised philanthropy and that old style CSR is no longer feasible in the 21st century. This is also what McBarnet (2007) stated on the first page of her book where she discusses the shift that

CSR has experienced from maximising shareholder value to expanding to include stakeholders' interests, a process Elkington (1997) described as a shift from the bottom line to the triple bottom line (TBL).

The bottom line is a traditional business concept usually used to describe a sole focus on profit-making. In contrast, TBL includes ecological and social performance in addition to economic performance in the corporate reporting structure (Sitnikov, 2013). Spreckley first introduced the concept regarding triple bottom line in 1981, and in the 1990s, the term '*triple bottom line*' was created and complemented by Elkington (1997, p. 2). In terms of environmental responsibility, scholars contend that CSR is an important tool to address the environmental crisis, in both its acute and chronic forms (Shrivastava, 1995, p. 212). Since the 1980s, with rapid industrial evolution, wealth has swelled in the Western world, but has caused resource depletion and environmental problems in developing countries (Shrivastava, 1995). In particular, sudden environmental pollution incidents including oil spills and nuclear contamination, alongside persistently high emissions, which cause global warming, are devastating the natural environment.

Government regulations are not sufficiently effective to solve the problem of environmental degradation across the world. A particular challenge relates to weak legal systems in developing countries. However, CSR has somewhat surprisingly emerged as a valuable instrument in solving the problem of environmental pollution. For instance, many managers' attitudes about dealing with their company's pollution have become more positive because executives increasingly understand that a more responsible company can be more competitive. As a result, managers are starting to prefer to manage externalities by adopting safety measures and green innovations rather than internalising the cost of externalities such as paying government fines (Hamidu et al., 2015, p. 86) with such a preference reinforced by growing acceptance of the fact that actively managing externalities can bring reputational benefits, whereas being punished only ever causes a negative impact. As noted previously, even CSR sceptics such as Friedman do not completely reject companies contributing to the natural environment or other social issues when the reputational return successfully transforms into higher income or other benefits (Orlitzky, 2015, p. 16). Although such sceptics

tend not to regard these instrumental activities as socially responsible behaviour, they are nonetheless de facto CSR measures.

Marking the end of the debate that lasted half a century, Friedman (2005) published a new article in response to John Mackey, the founder and CEO of Whole Foods Market. In it he contended that his famous statement, “the social responsibility of business [is] to increase its profits”, is identical to Mackey's statement that “the enlightened corporation should try to create value for all of its constituencies” (Friedman et al., 2005, p. 2) and that both statements rest on the premise that for businesses the best way to successfully serve their stakeholders' interests is to increase shareholder value.

Therefore, in light of the above analysis which has examined the main debates about CSR, a strong case can be made that CSR is a worthwhile activity for businesses to pursue. Specifically, it is clear that CSR is not a profit-sacrificing activity that is detrimental to shareholders' interests but rather is something that helps to protect companies' long-term interests.

## **2.5 The Evolution of CSR**

This section presents the history of how the CSR-law relationship transformed from being voluntary to the current situation, i.e., the combination of ‘soft’ and ‘hard’ laws. It is divided into three parts. The first describes the voluntary CSR age when CSR was first proposed, the second illustrates how CSR and the law came to overlap, and the third outlines how CSR has increasingly been written into formal legislation. The transition from discretion to obligation suggests changing attitudes to CSR. Lack of enforceability leaves room for the maximisation of shareholders' interests, but to some extent gives rise to potential problems of free-riding behaviour (Voegtlin and Pless, 2014) and less transparent CSR reports (Gatti et al., 2019). More and more countries and regions are beginning to set mandatory rules to make CSR legally-enforceable and to establish sanctions for irresponsible behaviour (Cominetti and Seele, 2016). Although CSR has been written into laws and regulations in different contexts, this does not necessarily mean that CSR has become mandatory (Gatti et al., 2018). In fact, in most cases, especially for SMEs, CSR remains voluntary (European Commission, 2011a).

Cominetti and Seele (2016, p. 133) have identified four different types of CSR rules dependent on the extent of obligation: “soft-soft law”, “hard-soft law”, “soft-hard law”, and “hard-hard law”. Soft-soft laws are voluntary guidelines usually with little or no penalties, e.g., the UN Global Compact (Voegtlin and Pless, 2014); hard-soft laws offer more detailed rules with limited or no sanctions, e.g., the Global Reporting Initiative that specifically details how to publish a CSR report (Cominetti and Seele, 2016); soft-hard laws provide binding rules with poor or no punishment, e.g., the EU directive on mandatory reporting (The European Parliament and The Council of The European Union, 2014); and hard-hard laws set out formal CSR regulations that have strict penalties for companies that violate the law, e.g., the US Sarbanes Oxley act (Cominetti and Seele, 2016). Given the simultaneous existence of the four categories in different contexts, CSR can neither be said to be merely voluntary nor mandatory.

### **2.5.1 CSR Goes beyond the law**

CSR was never compulsory for companies before the first decade of the 21st century. As previously mentioned, in 2001 the CBI defined CSR as a voluntary and business-driven activity, which generally goes beyond the scope of existing legal measures, and which requires companies to be not only responsible for their financial performance but also for their impact on society (Rühmkorf, 2015). The European Commission (2001) also defined CSR as a voluntary action which encourages companies to take social and environmental concerns and stakeholders’ interests into consideration. A 2002 Communication from the Commission highlighted the voluntary nature of CSR and emphasised that CSR is above and beyond what is legally required (European Commission, 2002).

In its voluntary period CSR was expected to be an initiative willingly undertaken by companies in part to make profits for their stockholders rather than as a consequence of legal enforcement. Self-regulation is the most distinctive characteristic of voluntary CSR (Cominetti and Seele, 2016; Gatti et al., 2018) and under such an approach companies are expected to incorporate their business values and ethics into a code of conduct to self-regulate any possible irresponsible social behaviour concerning human rights, the natural environment, and sustainable development (Albareda, 2008).

Advocates of voluntary CSR believe that possible political interference could cause the misallocation of resources to low value local projects (Wang et al., 2016). Such advocates have traditionally worried about introducing mandatory rules for CSR as they believe this might damage corporate confidence and weaken investment (Reid and Toffel, 2009).

However, as McBarnet et al. (2007) noted, the voluntary nature of CSR practices seemed questionable due to the pressure placed on firms by governments, NGOs, and the whole of society. Glinski (2007) believed that there is insufficient legislation and a lack of enforcement in some developing countries. For example, major global suppliers such as India, China, and Vietnam have lower standards regarding the protection of employees. Public law is also less able to regulate transnational economic activities. Self-regulation lacks clear standards for how many companies should apply voluntary CSR programmes, how to ensure trustworthy CSR certification or how fair the fair-trade needs to be (McBarnet et al., 2007). Critics of the voluntariness such as Chandler (2003, p. 31) regarded voluntary CSR as a “curse” that distracts from the need for effective external control. NGOs like Friends of the Earth expressed their concerns about voluntary CSR in their response to the EU’s CSR Green Paper (European Commission, 2001), in which the charity argued although CSR has value in promoting better corporate behaviour, it cannot be a substitute for public legislation (MacLeod, 2005; McBarnet et al., 2007). Vogel (2006, p. 46) made similar comments and emphasised that voluntary CSR is not a long-term alternative for the law.

Extant literature suggests that voluntary compliance and self-regulation was the norm during the early development of CSR and generally agrees that such an arrangement did not guarantee responsible corporate behaviour (McBarnet et al., 2007) as it allowed too much flexibility in CSR adoption. Furthermore, the literature shows that many academics and social organisations believe CSR should develop alongside laws and regulations, otherwise side-effects, e.g., free-riding and the declining credibility of CSR reports, may critically undermine CSR and cause other serious social problems (Cominetti and Seele, 2016).

### **2.5.2 CSR Overlaps with the law**

Although there have been many calls for the legal regulation of CSR, particularly because this would ensure equity for all companies by levelling the playing field for those who have adopted CSR voluntarily or under brand pressure, the relationship between the law and voluntary CSR programmes has never been one of total separation. In fact, they have often overlapped with one another and the law has frequently played a significant role in stimulating voluntary CSR (McBarnet et al., 2007, p. 37). For instance, when companies design their codes of conduct, they routinely make voluntary CSR commitments which are consistent with current legal frameworks. According to research conducted by Preuss (2010, p. 475), 77 companies of the FTSE100 index have drafted codes of conduct, 75 of which incorporate existing environmental or sustainability policies. Most of them also include additional environmental standards for their suppliers. This therefore suggests that self-regulation is not isolated from the law.

On the other hand, governments use indirect regulation or private law, e.g., tort law and contract law to promote the development of CSR. Take the United Kingdom as an example. Although there is no mandatory rule to force the adoption and implementation of CSR in UK company law, the UK's regulatory framework has nonetheless stimulated the development of CSR. In particular, from the 1990s onwards, the UK government has encouraged companies to behave in a socially responsible manner (McBarnet et al., 2007, p. 32). For instance, the government has adopted disclosure as an indirect tool to regulate investment behaviour rather than supervise businesses themselves through legislation (Gond et al., 2011, p. 650). This type of indirect regulation echoes the statement in the previous section, i.e., that governments act as the main driving force in facilitating self-regulation. In addition to disclosure, the behaviour of pension funds has also been strongly regulated by UK legislation (The UK Parliament, 2000), which stipulates that the investment decisions of pension funds must take account of social, environmental and ethical factors. As some of the largest institutional investors in the UK, pension funds and insurance companies are involved in self-regulation in two important regards (Knudsen, 2017, p. 32). First, pension funds increasingly consider whether a company is responsible or not when making investment decisions and companies with better CSR performance are deemed more suitable for investment.



Because of this companies which are seeking investment funds must pursue environmentally friendly and ethical business practices. Second, due to brand management pressure, pension funds have to successfully manage their image and ensure that their reputations are not damaged by companies in which they invest. Therefore, it can be said that a win-win mode indirectly regulates voluntary CSR practices. It is notable that governmental requirements on disclosure only guide companies to disclose what they have done or not done, and there is no explicit legislative obligation to force companies to disclose comprehensive information.

Like the UK, the European Union also uses disclosure as an indirect tool to regulate voluntary CSR. However, unlike the UK's disclosure on investment requirements, the EU only requires companies to produce a 'business review' section in their annual reports (The European Parliament and The Council of The European Union, 2003). Specifically, this requires that companies report their non-financial performance, which mainly includes information relating to their environmental impact and employee matters.

Compared to the UK government, the US government has done less to push CSR policies (Knudsen, 2017). However, that is not to say that there are no relevant regulations related to fostering CSR. Specifically, in the US the indirect promotion of CSR focuses more on the corporate governance agenda. Although the Foreign Corrupt Practices Act proposed penalties for corruption, the US Sentencing Commission gives corporations an opportunity to prove if they have a code of conduct for corruption prevention and an active enforcement scheme. If they have these in place and they fail to meet their responsibilities they will be punished but less so than a company without them (McBarnet et al., 2007, p. 36).

Nonetheless, not all government regulations are indirect. For example, the UK's 2006 Companies Act requires directors to act in good faith and to promote the success of all of their stakeholders (The UK Parliament, 2006). In effect, this means that when operating their businesses, directors have to take the interests of their employees, customers, suppliers, and the environment into consideration. Although this rule is designed to enhance shareholder value, it can equally be regarded as a means of

fostering voluntary CSR.

Apart from the direct and indirect regulation of voluntary CSR, NGOs are increasingly using company law to gain legal status and to participate in companies' decision making processes (McBarnet et al., 2007, p. 37). For example, by purchasing shares of a company, NGOs make themselves shareholders and can exercise their shareholder rights to propose resolutions at annual general meetings. In this way, traditional external pressure is transformed into internal pressure, which pushes companies to take CSR more seriously.

Businesses themselves also use private law to protect their voluntary CSR commitments. Large numbers of companies, especially multinational companies (MNCs) are increasingly agreeing CSR conditions with their suppliers. Indeed, the CSR movement rejects companies with a reputation of using external suppliers who act irresponsibly regarding CSR related issues, e.g., using child labour or those that produce serious environmental pollution. However, this has traditionally been a problem for many MNCs who have been attracted by cheaper costs, lower wages, lower regulatory standards and laxer enforcement evident in some developing countries and such lower standards in foreign investment has led to much criticism. As a result, reputational pressure has forced many MNCs to take contractual control over their suppliers and to force them to abide by the MNCs' own codes of conduct. However, although this appears like a positive development it must be remembered that there are no specified guidelines for companies when drafting their codes of conduct. As a result, companies may write symbolic content relating to CSR rather than implement meaningful CSR practices. Given this, calls for the regulation of CSR have increased (Tamvada, 2020, p. 4).

Alongside soft law and direct legislation in particular sectors, there are also international agreements which contribute to the development of CSR. For instance, the Kyoto Protocol, as part of the United Nations' Framework Convention on Climate Change, requires industrialised countries to reduce their emissions (Maamoun, 2019, p. 228). Also, there are international standards concerning human rights mandated by the International Labour Organization (Baccini and Koenig-Archibugi, 2014). However,

these international treaties are only compulsory to the countries that have signed the agreements, not to all companies. Yet, despite the fact that companies are not obliged to conform with these international agreements, they have nonetheless promoted CSR development by encouraging companies to voluntarily include their provisions within their codes of conduct.

### **2.5.3 CSR within the Law**

Although soft laws and international agreements have effectively encouraged CSR adoption, they are typically non-binding on companies' CSR decisions. A particular problem is that neither soft-hard laws nor hard-soft laws have strong sanctions for non-compliance. As a result, although companies may incorporate environmental protection and human rights protection into their codes of conduct, such commitments are frequently left unimplemented (Winn and Angell, 2016, p. 1143). Pressure from stakeholders to advance CSR, e.g., consumers choosing not to buy unethical services or products, is not guaranteed due to information asymmetry and weak institutions (Wright and Nyberg, 2017). Hence, more and more scholars have called for the introduction of more formalised CSR regulations (Osuji, 2011, 2015; Thirarungrueang, 2013, p. 176).

In light of these calls, the 25<sup>th</sup> of October 2011 should be seen as a landmark date for the development of CSR in Europe. Specifically, on that date the European Commission redefined CSR as, “the responsibility of enterprises for their impacts on society” (European Commission, 2011a, p. 6). Crucially, the Commission also indicated that CSR would no longer simply be a voluntary issue and stated that:

- “enterprises should have in place a process to integrate social, environmental, ethical, human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders, with the aim of
- maximising the creation of shared value for their owners/shareholders and for their other stakeholders and society at large
- identifying, preventing and mitigating their possible adverse impacts.

The complexity of that process will depend on factors such as the size of the

enterprise and the nature of its operations. For most small and medium-sized enterprises, especially microenterprises, the CSR process is likely to remain informal and intuitive” (European Commission, 2011a, para. 3.1).

In 2014, the EU Commission published Directive 2014/95/EU to amend the former Directive 2013/34/EU regarding the disclosure of non-financial information and social and environmental information (The European Parliament and The Council of The European Union, 2014). As the latest Directive of the European Union, it improves the level of information transparency regulated by the ‘*Single Market Act*’ (European Commission, 2011b). Furthermore, it reiterates the significance of disclosure of non-financial information and social and environmental information of large businesses, which was mentioned in both the ‘*Communication of the Renewed Strategy of CSR in 2011*’ (European Commission, 2011a) and the two resolutions of ‘*Corporate Social Responsibility: accountable, transparent and responsible business behaviour and sustainable growth*’ and ‘*Corporate Social Responsibility: promoting society's interests and a route to sustainable and inclusive recovery*’ (The European Parliament and The Council of The European Union, 2014). Following the Directive 2014/95/EU, public interest entities with more than 500 employees should publish, “an annual non-financial statement regarding information relating to at least human rights, environmental and social matters” (Chaplier and Gregor, 2014, p. 1).

Apart from the formal regulations formulated by the EU, countries like France, the UK, and the US have also introduced relevant legislation to regulate CSR initiatives, e.g., mandatory CSR reporting for publicly listed companies in France (Chauvey et al., 2015; Tamvada, 2020), tax transparency legislation in the UK and the US, i.e., the Extractive Industries Transparency Initiative (EITI) in the UK and the Dodd-Frank Act’s Section 1504 in the US, and regulations concerning labour rights and human rights protection, i.e., the Ethical Trading Initiative (ETI) in the UK and initiatives of the Apparel Industry Partnership (AIP) and the Fair Labour Association (FLA) in the US (Knudsen, 2018).

Nonetheless, the contemporary CSR regulatory system has only had a limited impact on CSR performance (Tamvada, 2020). Even as growing numbers of countries have set up specific CSR rules to control corporate activities, the absence of substantive and

binding rules fails to force companies to take socially responsible initiatives. This can be seen from the fact that more than 88% of current CSR rules are soft laws (Cominetti and Seele, 2016; Gatti et al., 2018) that have no sanctions for noncompliance. In the same vein, stakeholders also have limited obligatory restrictions regarding non-compliance with CSR rules. The extent of how much influence stakeholders can exert largely depends on the institutional context (Rathert, 2016, p. 859) and stakeholders can generally only successfully affect CSR decisions in an environment where there is a strong regulatory framework that empowers them to influence companies' decisions. If such circumstances are absent, they often lack any ability to force companies to adopt CSR initiatives.

To sum up, apart from basic economic responsibility, only legal responsibility is robustly guaranteed through the coercive power provided by mandatory CSR rules (Knudsen et al., 2015, p. 89), i.e., hard-hard laws; while the higher levels of CSR, i.e., ethical and philanthropic responsibility, is “incompatible and irreconcilable” with regulations (Osuji, 2011, p. 31). Instead, they are more strongly determined by the owners/managers' will and the institutional context.

## **2.6 CSR in the SME Context**

Compared to large companies, scarcity of CSR programmes is especially evident among SMEs. This is perhaps unsurprising given the requirement to adopt CSR differs between SMEs and large companies (European Commission, 2011a, para. 3.1). Profit, size, and the business structure, e.g., the unique ‘owner-manager’ management structure, are factors that influence SME CSR behaviour, which therefore exhibits distinct characteristics from large companies (Perrini, 2006b, p. 308; Lin et al., 2016). For example, global reputation is an inevitable strategic management priority for MNCs, but is less important for SMEs, even if their target customers are based across the world (Jenkins, 2004, p. 41). Besides, unlike explicit CSR practices that large companies frequently adopt, CSR in SMEs remains relatively informal (Jenkins, 2006; Murillo and Lozano, 2006; Perrini et al., 2007, p. 287; Coppa and Sriramesh, 2013), or “silent” and “sunken” (Vázquez-Carrasco and López-Pérez, 2013; P Lund-Thomsen et al., 2014, p. 602). As Jenkins (2004, p. 38) has suggested, SME CSR cannot directly mirror that of large companies. Instead, different peculiarities bring about different factors that affect

the implementation of CSR in SMEs (Murillo and Lozano, 2006), and simultaneously result in unconventional barriers. Furthermore, from the agency cost perspective, CSR challenges faced by large companies are different from SMEs. In large listed companies, short-tenure CEOs would be short-sighted and are reluctant to take long-term CSR practices (Mai and Hamid, 2021). Or, they may lift their reputation at the shareholders' costs. While in most small enterprises, there is no de facto separation of ownership and control. Agency problem does not exist under such a circumstance. The potential risk is the horizontal agency problem which is the conflict of interests between the controlling shareholders and the minority shareholders in some medium-sized companies. And compared to large listed companies, CEOs of sole proprietorship medium-sized enterprises have no duty to disclose the information to the public. Therefore, there is a clear need to review SMEs' CSR activities separately from the extant CSR literature.

The following table presents an overview of the results of a comprehensive literature review process. It includes top-line results from studies from the last decade found via searches of seven databases, i.e., CNKI, EBSCO Business Source Premier, Emerald, JSTOR, Science Direct, Springer Link, and Wiley Online. Furthermore, additional searches were conducted via Google Scholar to check if there is any relevant research not listed on the seven databases. The search terms used included CSR itself and its abbreviations to avoid missing any relevant literature. For instance, "CSR", "corporate social responsibility", "social responsibility", and "corporate social sustainability" were used as the first search string. "SMEs", "small and medium-sized enterprises", "small companies", and "small businesses" formed the second cluster of search terms, and "barriers", "obstacles", "challenges", "issues", and "problems" the third. It should be noted that not all studies discuss both drivers and barriers. When the studies only discuss drivers but not barriers or vice versa, this is indicated with 'NA' in the relevant column in the table.

**Table 1: Overview of SME CSR related studies, 2011 – 2021**

Drivers	Barriers	Sample	Method	Author
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“customer” “owners’ consciousness for community and/or environmental wellbeing”	“lack of time, money and resources”	8 Australian regional SMEs	Semi- structured interviews and questionnaire survey of owners or managers	Abdul Moyeen (2012)
“community” “personal value”	NA	19 Italian SMEs in various industries (Bergamo, a city of Italy)	Questionnaire survey	Giovanna et al. (2012)
“benefits of CSR” “ethical attitudes of SME owners” “government regulation”	“lack of financial resources, human resource, and time” “low comprehension of CSR” “lack of interest among stakeholders” “strong governmental regulation”	113 Singaporean SMEs in various industries	15 interviews of corporate representatives and 113 questionnaire surveys	Lee et al. (2012)

<p>“personal ethical belief”</p> <p>“local community”</p>	<p>“lack of financial resources”</p> <p>“lack of government support”</p>	<p>5 Indian SMEs in various industries</p>	<p>NA</p>	<p>N.K. Nair and J.S. Sodhi (2012)</p>
<p>“peer group influence”</p> <p>“pressure from clients”</p> <p>“involvement of youth”</p> <p>“government support, i.e., reducing bureaucracy and providing incentives”</p> <p>“consensus-building organizations, e.g., religious associations”</p>	<p>NA</p>	<p>105 Italian SMEs in various industries</p>	<p>a survey of executives of SMEs, qualitative in-depth interviews with the owner–managers of five SMEs, and elite interviews with opinion leaders</p>	<p>(Coppa and Sriramesh, 2013)</p>
<p>“personal value and commitment to improve the society”</p> <p>“cost reduction”</p>	<p>“lack of budget”</p> <p>“lack of time”</p> <p>“concern of additional cost in Chile”</p>	<p>394 Catalan SMEs, 900 European SMEs, and 465 Chilean SMEs in tourism industry</p>	<p>Questionnaire survey of owners or managers</p>	<p>Luis Garay Tamajón and Xavier Font i Aulet (2013)</p>



<p>“systematic responsibility, i.e., the industrial cluster”</p> <p>“pressure from clients”</p> <p>“government”</p> <p>“business association”</p> <p>“consensus-building organizations such as religion”</p> <p>“pressure from media”</p>	NA	105 Italian SMEs in various industries	Questionnaire survey of 105 CEO, 5 semi-structured interviews with owners or managers, and 2 elite interviews with opinion leaders	Marcello Coppa and Krishnamurthy Sriramesh (2013)
<p>“government”</p> <p>“International organizations”</p> <p>“business associations”</p>	NA	54 Colombian SMEs in various industries	Questionnaire survey of owners or managers and 5 elite interviews with opinion leaders	Nathaly Aya Pastrana and Krishnamurthy Sriramesh (2014)
<p>“local community”</p> <p>“personal commitment to CSR”</p> <p>“customer”</p>	<p>“lack of time, financial resources, and external support”</p> <p>“lack of CSR expertise and knowledge”</p>	55 Hungarian SMEs in both production and service sectors	Questionnaire survey	Noémi Csigéné Nagypál (2014)

	<p>“unpredictable regulatory environment”</p> <p>“lack of CSR awareness”</p>			
<p>“regulation”</p>	<p>“lack of time, knowledge, funding, human resources and support from top management”</p> <p>“no immediate business benefits of CSR”</p>	<p>28 Australian Construction SMEs</p>	<p>Questionnaire survey of construction related staff, e.g., product managers, architects, or contract managers.</p>	<p>Emma A.M. Bevan and Ping Yung (2015)</p>
<p>“customer”</p> <p>“community”</p>	<p>“lack of financial resource and human resource”</p>	<p>8 Japanese SMEs, 9 microenterprises and 3 large companies in the service industry, i.e., retail, wholesale, and restaurant</p>	<p>3 semi-structured interviews with owners or managers and 17 questionnaire survey</p>	<p>Haron et al. (2015)</p>

<p>“personal value, moral or religious belief”</p> <p>“regulatory compliance and supply chain pressure”</p>	<p>“limited financial resource”</p>	<p>30 Nigerian SMEs and 9 Tanzanian SMEs in various industries</p>	<p>Semi-structured interviews with owners or managers</p>	<p>Amaeshi et al. (2016)</p>
<p>“law and regulation”</p> <p>“stakeholders’ pressure and expectations”</p> <p>“CEO’s values or personal characteristics”</p> <p>“reputation”</p>	<p>“lack of financial resources”</p> <p>“lack of CSR knowledge”</p> <p>“absence of national professional CSR standard”</p> <p>“bad perception or the total lack of perception of the interest in CSR commitment”</p> <p>“poor collaboration with stakeholders”</p>	<p>Twenty French and Moroccan SMEs in the food processing industry</p>	<p>Semi-structured interviews with top managers</p>	<p>El Baz et al. (2016)</p>

“community” “customers” “employees”	NA	784 Pakistani SMEs in various industries	Questionnaire survey and 17 semi-structured interviews with executives and opinion leaders of SMEs	Jamshed Raza and Abdul Majid (2016)
“survival, including maintain, protect, and grow the business”	“lack of financial resources and support” “lack of CSR related tools” “lack of understanding of CSR”	2 Swedish SMEs in the textile industry and the food industry	Semi-structured interviews with key personnel	(Lee et al., 2016)
“local community” “religious beliefs and personal values”	“lack of financial resources and lack of external support” “lack of awareness and perception” “corruption”	59 Bangladeshi manufacturing SMEs	Questionnaire survey of 59 owners or managers and 7 semi-structured interviews with owners or managers	Md Nazmul Hasan (2016)

<p>“industry association”</p> <p>“customer”</p> <p>“community”</p>	<p>“scarcity of financial resources and human resource”</p> <p>“insufficient formal procedures to measure stakeholder engagement in CSR activities”</p> <p>“lack of CSR awareness”</p>	<p>3 Lithuanian SMEs in different industries</p>	<p>Semi-structured interviews with owners or managers</p>	<p>Salciuviene et al. (2016)</p>
<p>“employees”</p> <p>“investors”</p> <p>“suppliers”</p> <p>“government”</p> <p>“consumers”</p> <p>“competitors”</p>	<p>“poor market structure”</p> <p>“lack of appropriate logistics infrastructure”</p> <p>“underdeveloped environmental legislation”</p> <p>“demanding warehousing and distribution processes”</p> <p>“unorganized returns management”</p>	<p>104 Geek dairy manufacture micro and SMEs</p>	<p>Questionnaire survey of dairy manufacturer s, suppliers and distributors</p>	<p>Ghadge et al. (2017)</p>

“customer” “government” “regulatory pressure”	NA	87 Korean manufacturing SMEs	87 questionnaire survey of top and middle managers	Lee et al. (2017)
“government support” “employee” “customer” “local community”	“lack of training” “high costs of CSR”	20 Malaysian SMEs in manufacturing, construction, services, and trading industries	Questionnaire survey of managers, directors, owners, or top executives	Norbit et al. (2017)
NA	“limited financial resource” “uncertainty” “limited CSR awareness” “less government support”	9 Canadian manufacturing SMEs	33 semi-structured interviews with owners or managers	Sonia Chassé and Olivier Boiral (2017)
“satisfying legislation” “moral duty” “firm image”	NA	105 UK SMEs and 118 Indian SMEs in manufacturing or process industries	Questionnaire survey	Dey et al. (2018)

<p>“values of top management”</p> <p>“worries of potential risk or business loss”</p>	<p>“lack of customer interest”</p> <p>“lack of financial resource”</p> <p>“lack of time”</p> <p>“lack of human resource”</p> <p>“sector and technicality of product”</p>	<p>16 French SMEs in the manufacturing, construction, and food industries</p>	<p>21 semi-structured interviews with top managers</p>	<p>Stekelorum et al. (2018)</p>
<p>NA</p>	<p>“lack of social responsibility regulations”</p> <p>“lack awareness of CSR”</p> <p>“lack of financial and technical resources”</p>	<p>Vietnam SMEs CSR literature</p>	<p>Secondary resource data analysis</p>	<p>Phan Van Thanh and Szilard Podruzsik (2018)</p>
<p>“personal, family, and religious values”</p> <p>“macroeconomic factors (e.g., poverty and labour demands)”</p> <p>“CSR pioneers”</p>	<p>NA</p>	<p>6 Argentine SMEs in services, manufacturing, agriculture, and construction industry.</p>	<p>23 semi-structured interviews with owners, CEO, managers, suppliers, government and NGOs.</p>	<p>Massoud et al. (2020)</p>

“NGO and government” “community”				
“domestic market environment” “social expectations for the company” “advantages of CSR practices” “manager’s personal values” “pressure from the stakeholders, i.e., the local community and customers”	“resistance to change” “lack of rules and incentives” “fear of surveillance” “greenwashing fears” “focus on profits” “Lebanese consumer behaviour” “size of the organization”	No specific numbers of Lebanese SMEs in various industries (meeting the saturation)	Semi-structured interviews with managers and employees	Samer Elhajjar and Fadila Ouaida (2020)

From the above table certain conclusions can be drawn. In terms of the motivation for CSR, internal and external factors are the two major drivers for SME CSR. Internal motivations include owners/managers’ personal values, beliefs, religions, attitudes, CSR knowledge, management skills, and both incentives and pressure from employees. External motivations include incentives or pressure that arise from other stakeholders.

Regarding the barriers that SMEs commonly face during their CSR activities,



insufficient resources, i.e., financial, time, and human resources, are the greatest difficulty mentioned in the previous research across different contexts. This is predominantly driven by the characteristics of SMEs. For example, given that the fundamental task for SMEs is often just to survive, they are generally cautious about cash flow and worry about possible losses from unsuccessful CSR investment (Jenkins, 2004, p. 45). Lack of CSR awareness and knowledge is the second most frequently mentioned problem. The size of SMEs means that their owner-managers have great managerial discretion and exercising such discretion often reflects the personal values, beliefs, and religions of owner-managers (Jenkins, 2006, p. 251). Another problem that most literature suggests relates to government. Specifically, a lack of government support, uncertain policies and ever-evolving legal contexts are the three factors that cause SMEs to avoid CSR, especially in developing countries.

With respect to the research conducted in the last decade, it is surprising to find the findings of these studies are to a large extent aligned with the previous literature before the 2010s. Drivers including personal values (Quinn, 1997; Spence et al., 2003; Jenkins, 2004, 2006; Murillo and Lozano, 2006; Nejati and Amran, 2009) and stakeholder pressure (Murillo and Lozano, 2006; Perrini et al., 2007; Fassin, 2008) are still predominant factors. The principal actors who affect both the motivations and barriers have also remained constant, i.e., owner-managers and stakeholders. However, even though the extant literature allows scholars to uncover factors that affect CSR performance, given the different institutional settings, new research is needed to evaluate particular drivers and barriers in the unique Chinese SMEs context (Lin et al., 2016).

## **2.7 CSR in China**

### **2.7.1 The Evolution of CSR in China**

The previous section identified that there has been a trend towards formalising CSR, particularly in contexts such as the EU, UK and USA. However, it is important to note that such a trend, to some extent, has also occurred in China. For instance, CSR was written into China's Company Law in 2005. This law requires companies to act in a socially responsible manner (Standing Committee of the National People's Congress,

2005, chaps 1, Article 5). However, this early regulation does not mean that China has highly formalised CSR. This is because Article 5 is a hard-soft law with no sanctions for noncompliance and it provides no formal interpretation of what constitutes social responsibility nor how companies should act in specific terms. As a result, corporate governance and CSR have often been not been well-adopted in China (Moon and Shen, 2010; Tang et al., 2018) and the endorsement and encouragement of CSR has frequently been more symbolic than substantive (Lin, 2010). Hence, relatively few companies have voluntarily adopted CSR measures.

Scholars have identified two categories of drivers for those Chinese companies which have developed CSR programmes (Noronha et al., 2013; Lin et al., 2016; Parsa et al., 2021). In terms of external factors, China has long been forced to improve its domestic regulations by Western countries, WTO rules, and international standards, i.e., the SA 8000 and ISO 26000 (Yin and Zhang, 2012; Lin et al., 2016; Parsa et al., 2021). The import of these rules has helped China to some extent addresses weaknesses in corporate governance, e.g., the requirement for more transparent disclosure (Darigan and Post, 2009; Lin et al., 2016); to raise domestic standards concerning the protection of the environment, employees, and consumers (Wang and Juslin, 2009); and to promote stakeholders' involvement in corporate decision making (Lin et al., 2016).

Moreover, CSR has been internally motivated by the Chinese government (Lin, 2010). For example, the Chinese central government has endeavoured to make government policies and soft laws that curb unlawful corporate activities (Lan, 2014). During the early stages of marketisation, many private companies created from State Owned Enterprises (SOEs) abandoned their social responsibilities and became polluters and unethical social citizens (Moon and Shen, 2010, p. 616). The pursuit of short-term gains, overexploitation of natural resources, environmental contamination, salary payment arrears, cheating customers, and tax evasion have devastated the public's confidence in the Chinese government's ability to oversee such companies (Levine, 2008; Darigan and Post, 2009). To enhance the country's economic power while, "achieving harmonious co-existence between humankind and nature" (CPC Central Committee, 2010a), the former Chinese President Hu Jintao introduced the so-called "Scientific Outlook on Development" (CPC Central Committee, 2010b) and "Harmonious Society"

(CPC Central Committee, 2010a) concepts at the Third and Fourth Plenary Sessions of the 16th Central Committee in 2003 and 2004 respectively (Geoffrey (Kok Heng) See, 2009; Wang and Juslin, 2009).

From the official interpretation of the two concepts, it can be seen that CSR overlaps significantly with both. Specifically, “Harmonious Society” emphasises the significance of environmental protection, employment protection, normative market behaviour, legal system construction and underlines that if these aims are realised they will constantly improve people's living standards (CPC Central Committee, 2010a). Moreover, the aim of “Scientific Outlook on Development” is to achieve sustainable development (CPC Central Committee, 2010b). Therefore a strong case can be made that CSR shares the same values with several of China’s key guiding strategies (Chun et al., 2014; Zhao and Patten, 2016).

Following general principles of building a Harmonious Society, the two Chinese stock exchanges have published specific guidelines and initiatives regarding information disclosure (Levine, 2008; Moon and Shen, 2010; Dong and Xu, 2016; Parsa et al., 2021). For example, the Shenzhen Stock Exchange (SZSE) issued CSR Guidelines for listed companies in 2006 (Levine, 2008; Noronha et al., 2013; Dong and Xu, 2016), while the Shanghai Stock Exchange (SHSE) released the ‘*Notice on Strengthening Listed Companies’ Assumption of Social Responsibility and the Guidelines on Listed Companies’ Environmental Information Disclosure*’ in 2008 (Levine, 2008; Lin et al., 2016), which requires mandatory CSR reporting in China (Y.-C. Chen et al., 2018). Furthermore, both stock exchanges introduced the Social Responsibility Index in 2009 (Dong and Xu, 2016). Ten years after the introduction of the mandatory CSR reports required by the SHSE, in 2018 798 companies issued such reports, of which 278 voluntarily disclosed this information to the public. In comparison in 2008, the numbers were 290 and 32 respectively (M. Yang et al., 2019). In this vein, even though the article of the Company Law (Standing Committee of the National People’s Congress, 2005, chaps 1, Article 5) is ambiguous, the soft laws discussed above have filled the gap by requiring listed companies to release CSR reports and encouraging them to demonstrate their commitment to the natural environment and society. As a result of these requirements, if companies fail to perform their responsibilities, they would face severe

punishment and receive less investment (Levine, 2008).

The government in China has also played a significant guiding role in the evolution of CSR practices (Zhu et al., 2016; Tang et al., 2018). For instance, the State-owned Assets Supervision and Administration Commission of the State Council (SASAC) initiated CSR guidelines for SOEs in 2008, which suggest that companies incorporate CSR standards into their corporate strategies and enhance information disclosure and the involvement of their stakeholders (Levine, 2008; Zhu et al., 2016; M. Yang et al., 2019). This guideline explicitly shows the positive attitude of the Chinese government towards CSR, given there are 115 CSOEs (SOEs directly under the central government) (State-owned Assets Supervision and Administration Commission of the State Council, 2011) that occupy most of the dominant positions in China's economy (Lin, 2010). The guidelines stated that CSOEs must start issuing annual CSR reports or sustainability reports regarding CSR schemes and performance within three years from the publication of the guidelines. This implies that from 2012, all CSOEs have been required to release annual CSR reports (Zhu et al., 2016). In 2016, SASAC updated the previous guidelines to further emphasise the importance of CSR (M. Yang et al., 2019). Although the update did not add specific measures or requirements, the goal was to increase administrative pressure and to push CSOEs to integrate CSR principles into their business operations and force them to improve their corporate images. The result has been to make CSOEs play the leading role in the development of Chinese CSR (Zhu et al., 2016).

To reduce poverty, the Chinese government has launched a national project called "targeted poverty alleviation", which aims to help poor villages and households become prosperous (Chang et al., 2020). Enhancing community well-being and improving social welfare are well-aligned with ethical responsibility and philanthropic responsibility, and thus encourage both SOEs and non-SOEs (NSOEs) to become involved in the poverty alleviation campaign. To this end, in 2015, SOEs initiated the "hundred counties and ten thousand villages" programme, while NSOEs launched the "ten thousand enterprises supporting ten thousand villages" programme (Qiao et al., 2021). Based on statistics provided by SASAC, CSOEs have invested around RMB 100 billion in the "targeted poverty alleviation" campaign and have successfully helped 221

counties across China emerge from poverty between 2016 and 2020 (Nan, 2020). Therefore, it is evident that poverty reduction has been integrated into Chinese CSR. According to the '*White Paper on Corporate Social Responsibility 2020*' released by Country Garden and Hurun, environmental protection and targeted poverty alleviation account for 71% of all types of social responsibilities (Country Garden and Hurun, 2020).

Furthermore, the Chinese government has adopted CSR investment and tax refunds as incentives for companies to get access to critical financial resources or political resources (Lin, 2010; E. Lee et al., 2017; Luo et al., 2017). Specifically, a series of green credit guidelines and policies have been released to restrict environmentally damaging investment and credit risks (Zhang et al., 2011) and, on the other hand, to provide financial benefits to those who prioritise social interests (Lin, 2010). The government has also specified that before issuing loans to companies, state banks should first investigate their environmental performance using the Social Responsibility Index (Lin, 2010). Another subsidy is provided through tax reimbursement. According to the '*Enterprise Income Tax Law*' (Standing Committee of the National People's Congress, 2018a, chaps 4, Article 27, 34), if a company makes profits from environmental protection or energy and water-saving; or if a company invests in environmental protection or energy and water saving equipment, it can save a relevant percentage of its outlay in tax exemptions or reductions. Furthermore, companies also enjoy a full tax refund for payments made to disabled employees (Standing Committee of the National People's Congress, 2018a, chaps 4, Article 30).

At first glance, the green credit policy is supposed to create a win-win situation for banks and environmental protection. However, in reality the implementation of such policies have been frustrated either due to their vague provisions or inadequate information available to assess firms' environmental performance (Zhang et al., 2011). Furthermore, the administrative order is a soft law introduced by the central government and thus has limited binding effect on banks and to local Environmental Protection Bureaus (Zhang et al., 2011). In addition, tax subsidies have been found to be less influential on voluntary CSR adoption, both for SOEs and NSOEs (E. Lee et al., 2017). Indeed, both of these types of firms show a more positive attitude to direct subsidies,

e.g., direct investment or debt cancellation, given that SOEs can receive direct financial resources without implementing green tax policies and most NSOEs regularly experience cash flow problems.

Notwithstanding the shortcomings of green policies and their implementation, the significance of the Chinese government in providing impetus for CSR development cannot be ignored. The establishment of several hard-soft laws and soft-hard laws has guided corporate behaviour and related institutions during the last two decades (Vermander, 2014, pp. 30–35; Dong and Xu, 2016; Lin et al., 2016; Parsa et al., 2021). The government's increasing emphasis on CSR has also stimulated the development of CSR forums, institutions, and research (Ip, 2009a). This can be seen from the high volume of forums and conferences that have sprung up in China. For example, there was at least one CSR workshop a day in 2007 (Geoffrey (Kok Heng) See, 2009).

In terms of CSR institutions, Golden Bee Consulting is the first Chinese CSR research institution to release annual research reports on companies and other organisations' social responsibility reports (Jiang et al., 2018; GoldenBee Consulting, 2021). Their research findings constitute China's largest CSR report database and shed light on which companies publish CSR reports (Jiang et al., 2018; Ervits, 2021). It has also created a CSR evaluation system to rate CSR performance and reward companies who have performed well (Jiang et al., 2018; Wu and Hu, 2019; Zhong et al., 2019). Other institutions like the WTO Tribune and the Corporate Social Responsibility Research Centre of the Chinese Academy of Social Sciences (CASS) have also greatly contributed either to the guidance on releasing CSR reports or to the assessment index of CSR performance (Ip, 2009a; Lin, 2010; Yin and Zhang, 2012; Zhao, 2012; Marquis and Qian, 2014; Liu and Han, 2015; D. Li et al., 2016).

A large and growing body of literature indicates the boom of CSR activities in China. Research focuses on topics such as the nature of Chinese CSR (Moon and Shen, 2010; Marquis and Qian, 2014), the relationship between CSR and corporate performance (Gao, 2009; Q. Li et al., 2013; Kao et al., 2018), institutional dynamic changes to Chinese CSR (Yin and Zhang, 2012), and stakeholders' influence on CSR (Li and Zhang, 2010; Wang et al., 2011; D. Li et al., 2016).

Extant literature shows that CSR in China has some slight differences from CSR in the West. In particular, there are problems regarding information disclosure, e.g., missing information on human rights (Geoffrey (Kok Heng) See, 2009; Marquis and Qian, 2014) and the low credibility of some CSR reports (Noronha et al., 2013; Zhao and Patten, 2016; Wu and Pupovac, 2019). As mentioned earlier, the Chinese government puts high coercive pressure on companies, mainly SOEs, to release annual CSR reports (Lin et al., 2016; Y.-C. Chen et al., 2018; Wu and Pupovac, 2019). However, SOEs have frequently treated CSR reporting as a heavy burden since the infancy of Chinese CSR (Wang and Juslin, 2009). Until now, many SOEs have considered mandatory CSR reporting as an onerous mandatory requirement and generally approach it as a political task in a superficial manner, which often results in inaccurate and partial information disclosure (Wu and Pupovac, 2019). Moreover, the foundation of Western companies undertaking CSR is profit-making. However, in China, given that managers of SOEs are appointed by the Chinese government, they prioritise social responsibilities ahead of profits (Situ et al., 2020). SOEs have great agency costs. Indeed, SOEs, as the dominant players in the Chinese economy, have never been pure economic institutions but instead have always played a central role in fulfilling the government's social duties (Witt and Redding, 2012; Hofman et al., 2017).

In sum, although still at an early stage, the Chinese government and companies are being forced to accept CSR standards and requirements due to the external pressure from international organisations. As a result the government is gradually embracing CSR as a concept and incorporating CSR rules into its domestic political, economic, and cultural institutions to develop CSR with Chinese characteristics (Hawes and Young, 2019; Situ et al., 2020). Therefore, the conclusion can be drawn that compared to Western countries, CSR is being adapted to China's unique institutional settings and that government is at the core of CSR rather than owner-managers (Hofman et al., 2017; Hawes and Young, 2019; Situ et al., 2020). CSR measures are adopted to serve the government's interests or to guarantee the position of SOEs' managers rather than taking firm performance into consideration (Kao et al., 2018).

### 2.7.2 SME CSR in China

Although there are numerous books and journal articles relating to Corporate Social Responsibility in China (Lin, 2010; Moon and Shen, 2010; Vermander, 2014; Lin et al., 2016; Parsa et al., 2021), few of them include or emphasise SME CSR. The reason for this can be seen from See's study (2009) which predicted that CSR in China would only be relevant to SOEs for a considerable length of time. He stated that owner-managers are reluctant to devote themselves to CSR when there is only public pressure and that it is only SOEs which face huge government pressure that would adopt CSR measures as a priority. To some extent his prediction has been proved right as in the years immediately afterwards SME CSR gained little attention from the government and academics.

Nevertheless, in more recent years, this situation has changed and as more SMEs have developed CSR programmes, the government has become one of the most dominant drivers of SME CSR in China (Zhang et al., 2009; Tang and Tang, 2012; Wang et al., 2013; Tang et al., 2014). Despite existing hard-law laws that strictly regulate corporate behaviours, e.g., Environmental Protection Law, Food Safety Law, Consumer Protection Law, Labour Law, Labour Contract Law, and Enterprise Income Tax Law, the Chinese government has generally regulated SME CSR through soft laws (J. Wang et al., 2017). For instance, the SZSE published the '*Revised SZSE Guidelines on Good Faith for Small and Medium Enterprises*' in 2009, which stated that SMEs should pay more attention to social responsibilities (Noronha et al., 2013, p. 32). In 2013, the China Centre for Promotion of SME Cooperation and Development issued the first guidelines for SME CSR in China (Hou et al., 2020, p. 2). In practice, the above soft-law laws have been criticised for being symbolic since they have limited sanctions (Hou et al., 2020). Furthermore, most SMEs are unable to meet the requirements for public listing, let alone abide by the rules mandated by the stock exchanges. However, it is important to note that hard laws have forced SMEs to upgrade their codes of practice and equipment to meet various standards (Chi, 2011).

Although there is some relevant literature about SME CSR in China, most was published over a decade ago. Therefore, to provide a holistic review of Chinese SME CSR research, the thesis cannot simply review the literature published between 2011 to



2021 in the same way as the global SME CSR literature reviewed above. Given this, the below sections provide a comprehensive review of all published literature on SME CSR in China sourced via the same seven databases and Google Scholar but without any time limits imposed on the search period.

There is no accepted standard definition of SME CSR given its informal characteristics (Jenkins, 2006; Murillo and Lozano, 2006; P Lund-Thomsen et al., 2014). The interpretation of CSR also varies in different institutional settings, industries, economies, and cultural value systems (Welford, 2004; Campbell, 2007; Jamali, Lund-Thomsen, and Jeppesen, 2017; Jamali, Lund-Thomsen, and Khara, 2017). The first key point that emerges from the Chinese SME CSR literature is that the definition of SME CSR in the Chinese context follows the above principles and has certain unique features. On the basis of previous Chinese CSR research, Liu and Fong (2010, p. 33) attempted to define Chinese SME CSR as, “training, job creation, quality assurance and environmental sustainability”. This definition contains core strategies to provide a win-win situation for both companies and their stakeholders. However, due to the voluntary basis of CSR before the 2010s, Liu and Fong (2010) chose not to integrate laws and regulations into their definition. Rejecting the omission of a focus on being law-abiding, N. Li et al. (2016, p. 177) posited that Chinese SME CSR includes both legal compliance and responsibility to stakeholders, i.e., “providing a workplace, income, and job security to employees”, and obligatory responsibility to the community and customers. In their study, they propose that SME CSR in China is different from contexts such as Finland because of its focus on adherence to the law (N. Li et al., 2016). However, their finding is limited solely to the timber industry which only accounts for a small portion of Chinese SMEs and apart from this debate between Liu and Fong (2010) and N. Li et al. (2016), there is limited additional literature which has sought to provide a definition of Chinese SME CSR. Thus, what CSR means to SMEs in China is the first research gap.

Similar to the definition of Chinese SME CSR, there remains no consensus concerning its drivers. Yang et al. (2020) have found that buyers significantly affect suppliers’ CSR performance within the supply chain. Tang and Tang (2012) have identified that the government, the media, and competitors have a significant impact on SMEs’

environmental decisions. However, there are obvious limitations to the above two pieces of research. For example, the first study conducted by Yang et al. (2020) merely focuses on the relationship between buyers and suppliers on a firm-level basis but ignores both the influence of institutional factors on CSR performance and the influence of other stakeholders. Similarly, Tang and Tang (2012) only analysed four external stakeholders: government, competitors, customers, and the media, but neglected other internal and external stakeholders. Also, their research focused specifically on environmental performance rather than other fields of CSR. In contrast, Zhang et al. (2009) took both institutional factors and all relevant stakeholders into consideration when investigating SMEs' environmental performance. Their results showed that regulation and legislation are the most important drivers, whereas other stakeholders like employees and the community have only a very small effect on managers' decisions (Zhang et al., 2009). Tang et al. (2014) conducted broader research and focussed on product quality and safety. Their results were partly consistent with their previous environmental performance research (Tang and Tang, 2012), which suggested that government drives SMEs' CSR decisions, and the media has a negative influence on product management. However, because they only investigated how the government and the media affect managers' decisions, the influence of other stakeholders remains unclear (Tang et al., 2014). Wang et al. (2013) divided drivers into internal and external drivers, including the government, the media, customers, shareholders, managers, and NGOs. They consider that external drivers mainly comprise regulations and government policies, with CSR initiatives driven internally by personal values and economic interests (Wang et al., 2013, p. 86).

Regarding the barriers to SME CSR in China, Yu and Bell (2007, p. 19) highlighted lack of CSR awareness, financial resources, and external support. Their findings are to some extent similar to those from other national contexts where a lack of CSR knowledge and financial support are also the main barriers for SME CSR. However, Shi et al. (2008) proposed that a lack of economic policy incentives, lax law enforcement, and high running costs are the main barriers to cleaner production. They believe that compared to external government policies and financial constraints, internal management skills and poor innovation are less significant difficulties (Shi et al., 2008, p. 842). Zhang et al. (2009) also found that existing regulatory frameworks

and low public participation are major obstacles to better environmental performance but that management knowledge and bank loans are not obstacles to improved environmental behaviour. With respect to environmental protection, Tian and Lin (2019) are convinced that financial constraints present the most significant difficulty for SMEs. However, when the focal area is enlarged to include all CSR fields rather than just environmental performance, Liu and Fong (2010) argue that not only is the lack of financial resources a major problem, but also that the lack of innovation, management knowledge, and skilful employees are barriers to Chinese SMEs CSR. Similarly, N. Li et al. (2016) also observed that the lack of management knowledge and financial support are the main difficulties for Chinese SMEs CSR.

Discovering the incentives and obstacles are key to guiding the corporate behaviour of SMEs. However, despite the growing body of contemporary literature on SMEs CSR in China, there remains no comprehensive analysis of either the motivations or obstacles to SMEs CSR, which is thus the second research gap that will be addressed in this study. The above findings may to some extent overlap with each other, but there are also differences between them. For instance, Shi et al. (Shi et al., 2008) and Zhang et al. (2009) have both discovered that some of the government policies and regulations are barriers to CSR, but they have different findings on whether financial resources are critical to CSR of SMEs. Moreover, there are several shortcomings apparent regarding the extant literature. Specifically, research objectives of most above research are limited to the assessment of environmental performance. Because of this, their results are insufficient to explain SME CSR performance in other fields, e.g., the labour protection. Also, compared to the literature on SME CSR in other international contexts which often choose the manufacturing industry as their research object, the extant literature on SME CSR in China has to some extent ignored this significant area. This is an especially problematic oversight because SME manufacturers are highly energy- and labour-intensive, which means they contribute significantly to environmental pollution and labour problems (Zeng et al., 2011; Yi et al., 2020). Furthermore, most scholars have only adopted quantitative research methods to investigate motivations or barriers to SME CSR in China. The result is until now, there have been no major improvements in SME CSR performance in China and this suggests that seeking to uncover the in-depth motivations and difficulties for SMEs to embrace CSR by adopting a qualitative

approach is a necessary and valuable task (Zou et al., 2021).

### **Chapter 3: Theoretical Framework**

Choosing an appropriate theoretical lens allows researchers to better understand the rationale for organisations' potential and current practices (Gray et al., 2009; Fernando and Lawrence, 2014). As organisations are embedded in social and political systems, the selection of social and political theories is more logical than attempting to use pure economic theories that interpret CSR behaviour from the market perspective, e.g., agency theory or positive accounting theory (Gray et al., 2009). Given this, this dissertation will combine both stakeholder theory and institutional theory to investigate the reasons for CSR failures in the Chinese SME context. The application of stakeholder theory and institutional theory provides robust theoretical grounds for this research to thoroughly understand CSR performance and while both theories have limitations, they combine effectively to compensate for their respective limitations.

The rationale for the combination of the two theories comes from two perspectives. First, the combination of the two theories has been used highly effectively in previous CSR research (Yang and Rivers, 2009; Fernando and Lawrence, 2014; Kim et al., 2018). In fact, according to Frynas and Stephens (2015), institutional theory and stakeholder theory dominate recent political CSR research in contexts where CSR is mandatory for companies, e.g., Denmark, Indonesia, India, and China.

Second, the behaviour of organisations results from the organisational field in which they are embedded (DiMaggio and Powell, 1983; Matten and Moon, 2008; Chen and Roberts, 2010; Herold, 2018). Institutionalists highlight that organisational behaviour tends to become similar under coercive isomorphism, mimetic processes, and normative pressures within a national context (DiMaggio and Powell, 1983; Campbell, 2007; Matten and Moon, 2008; Fernando and Lawrence, 2014). Thus, institutional theory provides a unique perspective on CSR research, i.e., how national institutions influence various market factors and thus result in homogeneous CSR activities (Campbell, 2007; Jamali and Neville, 2011). In contrast, stakeholder theory suggests that organisational behaviour is primarily influenced by pressure from different stakeholders (Mitchell et al., 1997; Brammer and Millington, 2003; Freeman et al., 2004; Jamali, 2008; Freeman, 2010), and it is widely used to examine the impact of particular stakeholders on CSR strategies in given contexts (Tang and Tang, 2012; D.

Li et al., 2016; Theodoulidis et al., 2017). Therefore, the application of stakeholder theory fills the gap of interpreting the heterogeneity of CSR behaviours in similar organisational fields (Parmar et al., 2010). Moreover, it sheds light on the dynamics of organisational behaviour when there are conflicting interests between stakeholders, which cannot be explained by institutional theory (Kostova et al., 2008; Herold, 2018).

During its first stage, this research adopts Mitchell et al.'s stakeholder identification and salience model (hereafter MAW-1997) as an analytical tool to explore how owner-managers of SMEs understand salient stakeholders in their organisational contexts and how they respond to different stakeholders' expectations. The MAW-1997 is a functional tool to investigate which entities comprise the decisive stakeholders that affect Chinese SME managers' CSR decisions (Mitchell et al., 1997; Neville et al., 2011; J. Chen et al., 2018; Wood et al., 2021). Because CSR tends to exhibit different forms in different national contexts (Jamali and Neville, 2011), the result of the identification and salience model is the, "reflection of the institutional context" (van Dijk et al., 2021, p. 3). The lens of MAW-1997 enables the current study to evaluate what significant attributes affect the decision-making processes of Chinese SME owner-managers, and as will be explained in more detail why Chinese SME CSR activities vary among three isomorphisms.

Then, building on the national business systems (NBSs) approach proposed by Matten and Moon (2008), the thesis will analyse how the historically entrenched Chinese institutional context, i.e., its political system, financial system, and cultural system, influence SME CSR practices (Matten and Moon, 2008; Hofman et al., 2017). Given that different institutional environments result in different modes of firms, the organisation of market processes, and the way companies are governed (Matten and Moon, 2008), the national institutional framework will help explain why CSR modes and practices in China differ from those in other contexts. Furthermore, it will help explain why SMEs either act responsibly or irresponsibly through the interactions between SMEs and historically entrenched institutions (Matten and Moon, 2008).

### **3.1 Stakeholder Theory**

In this section stakeholder theory is firstly reviewed to justify why this research adheres

to the managerial perspective of the theory rather than the ethical view. The section will then explain why MAW-1997 is an appropriate model for the identification of who and what really counts for SME CSR decisions. Through the lens of stakeholder theory and the MAW-1997, the study aims to determine the ranking order of stakeholders and the most decisive attributes in the Chinese SME context.

### **3.1.1 Definition of Stakeholder and Stakeholder Theory**

The term ‘stakeholder’ was first used by the Stanford Research Institute (SRI) in 1963, and was defined as, “those groups without whose support the organisation would cease to exist” (Freeman, 2010, p. 31). The original definition of stakeholders included shareowners, employees, customers, suppliers, lenders, and society. Researchers from the SRI hoped that senior managers would realise that without the help of stakeholders, they would not be able to achieve their companies’ objectives and thus would be unlikely to survive (Sen and Cowley, 2013). With the widespread application of stakeholder theory, it has become deeply entrenched in organisational life and the academic literature (Freeman et al., 2004; Perrini, 2006b; Lai Cheng and Ahmad, 2010; Crane and Ruebottom, 2011; Spence, 2016; Theodoulidis et al., 2017). Despite the importance of stakeholder theory in other corporate governance fields, the greatest success of the theory in the CSR literature is that it has ensured that groups previously considered irrelevant by owners, i.e., the public, the community, and employees, are now taken into consideration (Wood et al., 2021).

However, the definition of what constitutes a stakeholder remains contested (Miles, 2017). Indeed, the general application of the term in the management field has resulted in various definitions to serve different purposes. As a result, there are wide classifications, e.g., as Starik (1995, p. 216) proposed, which incorporate things of a non-human nature, i.e., “any naturally occurring entity which affects or is affected by organisational performance”; and there are also narrow definitions that are limited to only one dimension, for instance, moral obligations that would exclude the media and competitors (Phillips, 2003, p. 30), or contractual obligations which comprise a mutual agreement between signatories (Heugens and Oosterhout, 2002). Regardless of whether the concept is understood in its wide or narrow sense, the core idea which clarifies the concept of stakeholder is it helps to distinguish who really counts to a firm (Wood et

al., 2021). Thus, this study adopts Freeman's (2010, p. 46) definition, which is a more strategic definition and conceptualises stakeholders as, "those groups who can affect or are affected by the achievement of an organisation's purpose". Although this definition has been criticised for being too managerial and for failing to incorporate an ethical perspective of CSR (Stieb, 2009; Brown and Forster, 2013), CSR is after all not purely benevolent. In this respect, the key point of stakeholder theory is that managers should meet various stakeholders' expectations, and a company's decisions should come about as outcomes of stakeholder influence (Freeman, 2015). Therefore, stakeholder theory is not contradictory to Friedman's shareholder theory, as satisfying stakeholders is the only way to continuously maximise shareholder value (Sen and Cowley, 2013). To achieve the goal of sustainably maximising shareholder value, companies should satisfy their customers' needs for quality services and products; companies should have good relationships with suppliers to ensure quality materials; companies should encourage employees to enhance their sense of ownership; and companies should focus on the community to generate sufficient support (Freeman, 2015).

Although there are many types of categorisation and explanation of stakeholder theory (Fernando and Lawrence, 2014), two particularly influential classifications have emerged from the academic literature: ethical stakeholder theory and managerial stakeholder theory (Fernando and Lawrence, 2014, p. 158). Ethical stakeholder theory notes that all stakeholders are entitled to be regarded equally regardless of their power (Deegan, 2014, p. 373). Under this approach, managers are expected to meet the requirements of all stakeholders without judging whether a particular stakeholder can improve financial performance. This perspective of stakeholder theory disregards the maximisation of organisations' profits, and instead emphasises the moral and ethical obligations of firms to people and society (Stoney and Winstanley, 2001, p. 608). Following the ethical stakeholder perspective, companies should be responsible for all their stakeholders rather than just those which are strong and powerful. Nevertheless, the major difficulty for managers is how to deal with stakeholders fairly when stakeholders are in opposing positions or have different claims. This is because ethical stakeholder theory requires that organisations strike a desirable balance between conflicting stakeholders (Hasnas, 1998, p. 26). Furthermore, to some extent, optimally serving stakeholders' interests may at times imply a need to sacrifice shareholders'



interests.

Unlike the ethical perspective of the stakeholder theory, managerial stakeholder theory argues that managers should only be responsible for those who are critical to their firm's success or those who have dominant power over the firm (Fernando and Lawrence, 2014, p. 160). Under such an approach, managers are not required to meet all stakeholders' expectations but only those of influential stakeholders who can drive profits. Compared to ethical stakeholder theory, the managerial view has been assessed by several empirical studies (Deegan, 2014, p. 374). Indeed, most CSR literature adopts managerial stakeholder theory since ethical stakeholder theory, "has little descriptive or explanatory power in a CSR context" (Gray, 1996, pp. 45, 46; Frynas and Stephens, 2015, p. 492).

This research adheres to managerial stakeholder theory for the following reasons. First, it is extremely complex for managers to strike a balance between conflicting stakeholders, especially for SME managers. Although CSR holds the view that companies should take stakeholders' concerns into consideration, there is another premise that says enterprises should prioritise their bottom line, i.e., to survive. The managerial perspective best describes how different stakeholders should be managed when the main goal of the organisation is to survive (Deegan, 2014, p. 374). Furthermore, in practical terms, companies are unlikely to respond equally to every stakeholder and will instead prioritise those who they recognise as powerful (Bailey et al., 2000). According to Ullman (1985), the impact of a stakeholder's power on a company depends on how much critical resources that stakeholder controls. Compared to large organisations, SMEs undoubtedly lack resources to survive (Sen and Cowley, 2013). As a result, a strong argument can be made that they are right to recognise the differences within their stakeholder group and to precisely prioritise those stakeholders who will make the greatest contribution to their operations and management team (Jawahar and McLaughlin, 2001). Under this approach, powerful stakeholders who are more able to affect the enterprise are more influential to SME managers. In this vein, meeting powerful stakeholders' expectations does not imply managerial stakeholder theory is opposed to CSR since, as was described earlier, economic responsibility is the foundation of all businesses (Carroll, 1991). Moreover, stakeholders' requirements are

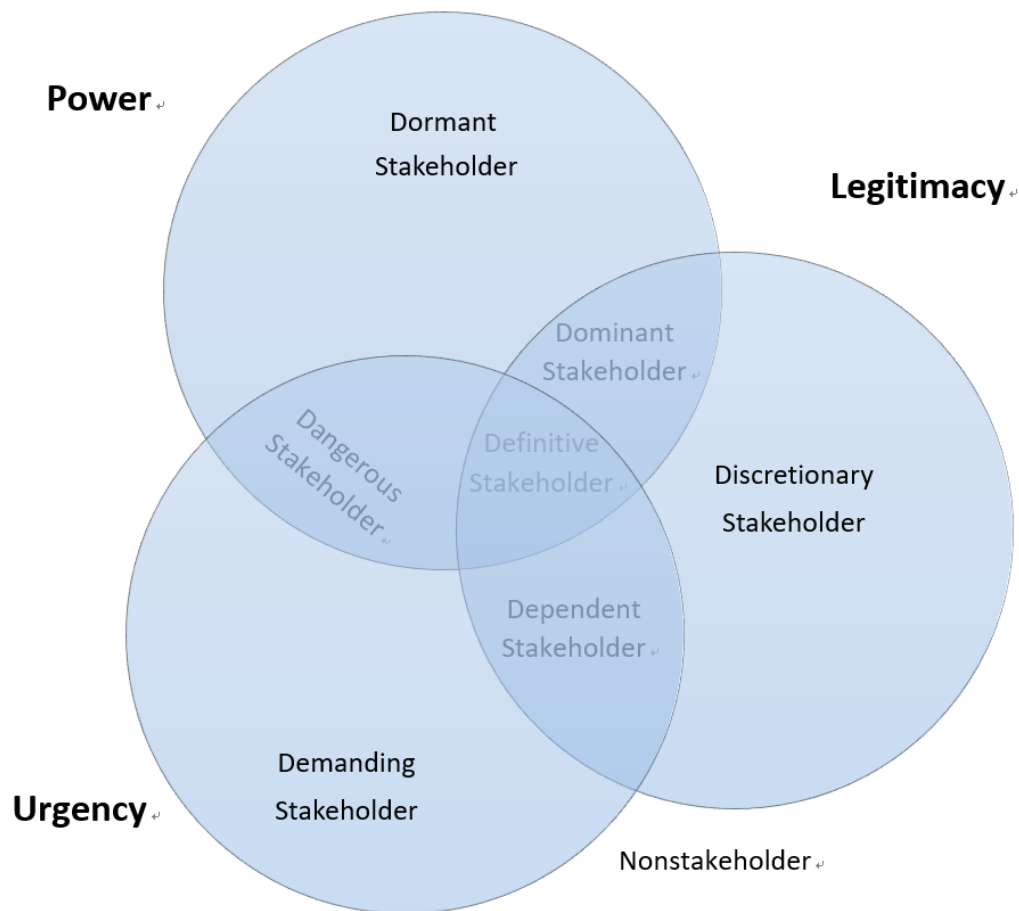
not always in conflict. For instance, the government, community, and customers might all have environmentally friendly expectations of the business. Therefore, given the above analysis managerial stakeholder theory is the most suitable perspective to guide this research.

### **3.1.2 The Stakeholder Identification and Salience Model**

Having adopted the managerial stakeholder perspective, a key question that follows and that is fundamental to CSR decision making concerns how managers distinguish the importance of different stakeholders. Mitchell et al. (1997, p. 853) have proposed a theoretical model, based on the possession of three attributes, i.e., power, legitimacy, and urgency, to classify stakeholders into eight clusters.

The following chart (Figure 1) clearly explains the MAW-1997 (Mitchell et al., 1997, p. 872). Entities that do not possess any of the three attributes are not regarded as stakeholders. Latent stakeholders are those who possess one of the three attributes of power, legitimacy, or urgency. To elaborate, they are named as dormant stakeholders if they have access to power, discretionary stakeholders if they have legitimacy, and demanding stakeholders if they possess urgency. Expectant stakeholders are recognised as stakeholders with medium salience, who have a combination of two attributes. Dominant stakeholders combine power and legitimacy, dependent stakeholders combine legitimacy and urgency and dangerous stakeholders combine power and urgency. Collectively, they are classified as expectant stakeholders. The most salient stakeholders are definitive stakeholders, who have a mix of all three attributes.

**Figure 1: Qualitative Classes of Stakeholders**



Source: Mitchell et al., 1997, p. 872

Power is defined as, “one social actor, A, can get another social actor, B, to do something that B would not otherwise do” (Mitchell et al., 2011, p. 239). From an organisational perspective, Mitchell et al. (1997, p. 865) have applied Etzioni’s categorisation of power, in terms of the way resources are employed, to distinguish power into coercive power, utilitarian power, and normative power. Coercive power represents power in the form of physical force, normally including the use of guns, violence, sabotage, as well as use of the legal system, including courts, rulings, and legislation (Agle et al., 1999, p. 14). Utilitarian power comes from the control of material rewards, which implies the granting or withholding of financial, technical or physical resources that can be converted into material rewards (Etzioni, 1964, p. 59). Normative power suggests control by means of symbols, for instance, the distribution of esteem, prestige, and social symbols through media platforms (Parent and Deephouse, 2007, p. 15). To achieve their goals, stakeholders may wield the three types

of power to force or incentivise managers to comply with them.

Legitimacy is defined by Suchman (1995, p. 574) as, “a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions”. An entity might have a legitimate status, or have a legitimate request of the business, but only when it gains the power to exercise its intention, or its assertion is urgent, can the entity be defined as a salient stakeholder to a manager (Mitchell et al., 1997).

Urgency is interpreted as, “the degree to which stakeholder claims call for immediate attention” (Mitchell et al., 1997, p. 867). Two layers underpin urgency: either the claim or the relationship between a stakeholder and a company is time-sensitive, or, either the claim or the relationship itself is crucial.

### **3.1.3 The Development of the Original Model**

The MAW-1997 has had a great impact on management and management-related studies, e.g., corporate governance, corporate law, business and society, corporate strategy, and policy research (Wood et al., 2021, p. 9). Along with the general application of the MAW-1997, the model has gone through significant further development since it was first published. For example, there has been research on the extension and validation of the MAW-1997 (Phillips, 2003; Driscoll and Starik, 2004; Fernandez Gago and Nieto Antoln, 2004; Eesley and Lenox, 2006; Neville and Menguc, 2006; Olander, 2007; Parent and Deephouse, 2007; Neville et al., 2011) and criticism of the model (Jawahar and McLaughlin, 2001; Friedman and Miles, 2002; Wolfe and Putler, 2002; Pajunen, 2006; Fassin, 2009). Extant research sheds valuable light on stakeholder identification, but it also suggests that MAW-1997 must be carefully considered before it is adopted as a research framework.

In terms of the power attribute, Eesley and Lenox (2006) believe that the power of stakeholders interacts with the power of firms. Unlike Mitchell et al.’s (2011) definition that stakeholders can force a company to act according to their will regardless of any resistance, Eesley and Lenox (2006) proposed a two-way relationship between stakeholders and firms. Whether the power of a stakeholder is influential depends on

what a company needs, or what resources it lacks. If stakeholders get access to resources that companies need, companies are likely to positively meet their requirements; whereas if a company possesses ample resources, this lowers the possibility that it would respond to a stakeholder's claims. Thus, Eesley and Lenox (2006, p. 767) define power as the, "relative access to resources for the stakeholder group with respect to the firm being targeted".

Anecdotal research suggests a fourth type of power beyond coercive power, utilitarian power, and normative power, namely, network centrality power (Driscoll and Starik, 2004; Neville and Menguc, 2006; Pajunen, 2006; Neville et al., 2011; Khurram et al., 2019, p. 480). Driscoll and Starik (2004) argue that the MAW-1997 fails to explain the relationship between companies and stakeholders within a social network. Also, as a primary stakeholder, the natural environment possesses coercive power (e.g., disasters) and utilitarian power (e.g., natural resources), but is unable to make a claim on firms (Driscoll and Starik, 2004). Thus, to better investigate the material resources and threats that nature brings, Driscoll and Starik (2004, p. 62) incorporated "pervasiveness", which is, "the degree to which stakeholder impact is spread over distance and time, to the MAW-1997". Pajunen (2006, p. 1263) also considers that the network position significantly affects stakeholder salience, given powerful stakeholders who, "control the interaction and resource flows in the network" have a strong influence over a firm's decisions. Following their research, Neville et al. (2011, pp. 360, 361) believe that a company will receive considerable attention when the network density intensifies, whereas a stakeholder will gain significant control and access to the network hub if its network centrality increases (Rowley, 1997). Khurram et al. (2019) first integrated network centrality power into the MAW-1997 and examined its effectiveness as a new power attribute. They defined the network centrality power as the power to block or grant access to resources when the stakeholder is at a more central position than other components (Driscoll and Starik, 2004; Pajunen, 2006; Neville et al., 2011; Khurram et al., 2019). Nevertheless, apart from Khurram et al.'s work, there have been no further studies which verify centrality power in the stakeholder identification and salience model. And it is repetitive as the proximity concept. Thus, in this research, centrality power will not be recognised as the fourth type of power but will be included in the proximity attribute, discussed in more detail below.

In terms of legitimacy, Eesley and Lenox (2006, p. 768) argue that the vagueness of the original definition has led to confusion in subsequent research, particularly in relation to whether the legitimacy of a stakeholder or its claim has primacy. Hence, they propose that legitimacy both pertains to stakeholders and to the requests supported by stakeholders (Eesley and Lenox, 2006). Neville et al. (2011, p. 363) also consider the definition of legitimacy to be problematic, and they further develop Eesley and Lenox's finding that the legitimacy of a claim is more critical than the legitimacy of a stakeholder in affecting managers' decisions. However, they do argue that the legitimacy of stakeholders enhances or weakens the legitimacy of their claims and that they are therefore closely related (Neville et al., 2011).

Moreover, Neville et al. (2011, p. 364) assert that Suchman's explanation of legitimacy contains a mixture of different types, including moral legitimacy, pragmatic legitimacy, and cognitive legitimacy, and thus lacks a clear boundary for managers to assess salience. They regard pragmatic legitimacy to a large extent as repetitive of the power attribute since it emphasises instrumental strategic decision making (Neville et al., 2011), and furthermore, because cognitive legitimacy arises from comprehensibility and taken-for-grantedness, that it fails to provide an explicit standard to evaluate an action or claim (Suchman, 1995; Deephouse and Carter, 2005; Neville et al., 2011). Hence, they suggest keeping moral legitimacy as the key criterion for assessing stakeholder salience and excluding pragmatic legitimacy and cognitive legitimacy. Given this, they have subsequently redefined legitimacy in a way that states:

“the moral legitimacy of a stakeholder's claim is an assessment by managers of the degree to which a claim exceeds a threshold of desirability or appropriateness within some personally, organisationally, and socially constructed system of ethical norms, values, beliefs and definitions” (Neville et al., 2011, p. 369).

Whether a manager perceives a claim as legitimate is determined by the intrinsic legitimacy of the claim itself, which relies on the normative evaluation of the claim according to a manager's personal experience and perception of social justice, but not

because of what influence the claim brings to an organisation (Neville et al., 2011). Although the MAW-1997 framework has come to dominate stakeholder salience research, Neville et al.'s developments concerning legitimacy have been gradually adopted by subsequent empirical research (J. Chen et al., 2018; van Dijk et al., 2021).

In terms of urgency, Agle et al. (1999, p. 520) described urgency as “the best predictor of salience”. However, Jones et al. (2007, p. 153) argue that urgency should be thought of as a booster to power and legitimacy, i.e., something which can make a salient claim more salient, but which cannot transform a normal claim into an essential one in the same way as power and legitimacy can. Neville et al. (2011, p. 362) agree with this proposition, and believe that urgency is useful when prioritising the order of stakeholder salience but is not a sufficient stand-alone metric for the identification of stakeholders. However, in their review of the development of the MAW-1997, Mitchell et al. (2021) reject Neville et al.'s proposition, and maintain the importance of urgency in stakeholder identification.

Developing the debate about urgency, Eesley and Lenox (2006, p. 769) argue the extent to which urgency is influential on a manager's decision making depends on the claim rather than the stakeholder group. When a powerful and legitimate stakeholder makes a request that is neither urgent nor illegitimate, they suggest a manager would likely refuse such a request (Eesley and Lenox, 2006; Wood et al., 2021). Moreover, Driscoll and Starik (2004, p. 62) propose that “probability” should be attached to the urgency attribute. A claim of a time-sensitive and important nature cannot guarantee stakeholder salience since the claim might not come into effect. Once a claim is time-sensitive, important, and has a substantial likelihood of happening then the manager would regard the claim as having higher salience.

Driscoll and Starik (2004) also proposed a new attribute, proximity, for stakeholder identification. It fills the gap of how physical distance and spiritual distance affect the interactions between stakeholders and the focal organisation (Driscoll and Starik, 2004; Neville et al., 2011). According to Driscoll and Starik (2004, p. 61), proximity includes, “the near and the far, the short- and the long-term, and the actual and the potential”, issues which they assert the power, legitimacy, and urgency attributes fail to explain.

In the same vein, Lähdesmäki et al. (2019, p. 376) adopt the concept of local embeddedness to illustrate social proximity and they define it as containing, “the perception of social, cultural, psychological or physical closeness”, between a firm and its stakeholders. Organisations which occupy the same physical space, adjoin other entities, or share common values and approaches in practice tend to have close interactions (Driscoll and Starik, 2004, p. 64). For example, firms within the same industry associations often share the same stakeholders, like retailers and suppliers that share the same value creation process and have proximate relationships. Thus, Driscoll and Starik (2004) suggest that stakeholders who are nearer to the focal organisation, who bring short-term economic benefits, and are not potential stakeholders, will be recognised as salient stakeholders by managers.

Although Neville et al. (2011) acknowledge that proximity is of great significance in distinguishing salient stakeholders, they believe that the influence of proximity is included within the power and legitimacy attributes, and is limited to network position and moral intensity. However, others believe that proximity extends beyond the three attributes and should be treated as a separate fourth attribute, especially in the field of small company CSR research (Courrent and Gundolf, 2009; Lähdesmäki and Suutari, 2012; Spence, 2016; Lähdesmäki et al., 2019). Hence, this comprises the third gap this research will address. Specifically, the thesis will fill this gap by investigating whether proximity is effective among Chinese contextual factors and how it affects the decision-making process of owner-managers.

#### **3.1.4 The Dynamic Nature of the MAW-1997 and its Application in the SME Context**

Mitchell et al. (Mitchell et al., 1997; Wood et al., 2021) both discuss the dynamism of the MAW-1997 in their original and review articles. For instance, they state that any stakeholders who gain missing attributes can achieve parity with stakeholders of higher salience and that managers might not regard theoretically salient stakeholders as salient stakeholders in practice due to their knowledge and the status of the firm (Mitchell et al., 1997). Therefore, the dynamic nature of the MAW-1997 can be seen from several perspectives, including: the variability of attributes and from the fact that managers’ perceptions are embedded within evolving institutional contexts (Jawahar and



McLaughlin, 2001; O'Higgins and Morgan, 2006; Jones et al., 2007; Neville et al., 2011; Mainardes et al., 2012; Verbeke and Tung, 2013; Wood et al., 2021), from firms' varying access to resources at different life-cycle stages (Jawahar and McLaughlin, 2001), from the frequent changes of stakeholders' resources (Wood et al., 2021), and from the various cultural contexts of stakeholders (Jones et al., 2007).

It is also important to recognise that contextual factors generate varying research results and contribute to the dynamism of the identification and salience model (Mitchell et al., 2011). For instance, Parent and Deephouse (2007) believe that power is the most pivotal factor among the three attributes, followed by urgency and legitimacy. They also argue that utilitarian power is the most critical power, followed by normative power and coercive power (Parent and Deephouse, 2007). However, according to Jones et al. (2007), the effectiveness of the three attributes varies in different corporate cultures. In the corporate egoist culture where companies focus on "short-term profit maximisation" and in the instrumentalist culture where managers believe in "enlightened self-interest", power is the most significant attribute (Jones et al., 2007, p. 147). However, in the moralist culture, power is only the second most important determinant of salience.

Another example of the dynamic nature of the MAW-1997 is that stakeholders who possess all three attributes are considered to be definitive stakeholders (Mitchell et al., 1997). However, according to O'Higgins (2006), on the one hand, such a condition does not always exist and, on the other hand, a stakeholder who has one or two attributes might have more influence than one who has accumulated all three. For instance, there could be circumstances where one stakeholder with a tiny amount of power has a claim with limited legitimacy and urgency (O'Higgins and Morgan, 2006; Mainardes et al., 2012) Although such a stakeholder would be accorded the highest salience according to MAW-1997, an "ideologically oriented" company might allocate higher salience to another stakeholder whose claim is more ideologically aligned with the firm, regardless of the presence of the attributes (O'Higgins and Morgan, 2006, p. 73). In this instance, the contradictory result does not suggest that the MAW-1997 is ill-defined but instead it again emphasises its dynamism (Wood et al., 2021). The complexity of institutional contexts affects the way managers view stakeholders, and thus generate new findings which in turn extend the MAW-1997.

Divergent views in the SME context also demonstrate the dynamic nature of the MAW-1997 (Spence and Schmidpeter, 2003; Jenkins, 2006; Sen and Cowley, 2013; Barnes, 2015; Park and Campbell, 2018; Joos, 2019; Lähdesmäki et al., 2019). Below is a table (See Table 2) of potential stakeholders and their attributes based on the MAW-1997 (Sen and Cowley, 2013, p. 415).

**Table 2: SME Stakeholders' Salience Classification**

	Attributes possessed	Salience classification
Owners	Power/legitimacy/urgency	Definitive
Employees	Power/legitimacy	Dominant
Customers	Power/legitimacy	Dominant
Suppliers	Power/legitimacy	Dominant
Investors	Power/legitimacy	Dominant
Family of owners	Legitimacy	Discretionary
Political groups	Legitimacy	Discretionary
Trade associations	Legitimacy	Discretionary
Community	Legitimacy	Discretionary

Source: Sen and Cowley, 2013, p. 415

Sen and Cowley (2013) conclude that in a community-oriented CSR context the community is the most significant stakeholder for SMEs, but that the dominant stakeholders shown in the table, e.g., customers and employees, hardly affect CSR decisions. In contrast, in a financial-driven CSR context, SMEs attach more importance to employees, customers, and suppliers rather than the community (Sen and Cowley, 2013). With respect to the Chinese CSR context, most stakeholder salience research assigns great significance to the government, which is absent from the above table, given its dominant influence on political, economic and social affairs in China (Tang and Tang, 2012; Dong et al., 2014; Wang et al., 2015; Tang et al., 2018). Other missing stakeholders like competitors and the media are also relevant in the Chinese CSR context (Tang and Tang, 2012; Wang et al., 2015). Thus, the dynamism of the MAW-1997 provides the basis for this research to take Chinese contextual factors into consideration.

Although hundreds of scholars have revisited and refined the stakeholder identification and salience model, their progress is neither widely acknowledged nor integrated (Wood et al., 2021). The most frequently cited identification and salience model is still the MAW-1997 (Neville et al., 2011; Wood et al., 2021). Therefore, this research will apply the MAW-1997 as a basic theoretical framework and incorporate the above-mentioned developments concerning the MAW-1997 into the Chinese institutional context.

### **3.2 Institutional Theory**

This section will firstly clarify the definition of institutional theory and how it is tied to CSR research. Then, having developed Matten and Moon's national institutional context, it will investigate how institutional drivers work with regards to SME CSR adoption.

#### **3.2.1 Institutional Theory and CSR Research**

The Oxford Handbook of Comparative Institutional Analysis states that institutional theory considers:

“how the forms, outcomes, and dynamics of economic organisation (firms, networks, markets) are influenced and shaped by other social institutions...and with what consequences for economic growth, innovation, employment, and inequality. Institutions are usually defined...as formal or informal rules, regulations, norms, and understandings that constrain and enable behaviour.”  
(Morgan et al., 2010, p. 2).

In contrast to stakeholder theory which highlights the way organisations meet the expectations of their stakeholders, institutional theory focuses on interactions between organisations and the wide range of societal institutions in their organisational field (Meyer and Rowan, 1977; DiMaggio and Powell, 1983; Scott, 1987, 2008). According to DiMaggio and Powell (1983, p. 148), the organisational field contains the organisation per se and its, “key suppliers, resource and product consumers, regulatory

agencies, and other organisations that produce similar services or products”. Thus, organisational behaviours are regarded as the reflection of organisations’ surrounding institutional environments (Wooten and Hoffman, 2008).

To survive and gain or maintain legitimacy, organisations modify their structures and patterns of behaviours to, “meet social expectations or to be socially acceptable” within their organisational field (Meyer and Rowan, 1977; Scott, 1987; Chen and Roberts, 2010, p. 656). New institutionalists suggest that organisations have a tendency to become similar under legitimacy pressure from their institutional environments (DiMaggio and Powell, 1983; Yin, 2017). They believe that such homogeneity of organisational behaviours are not intended to increase efficiency but come about as firms attempt to earn legitimacy and resources by conforming to institutionalised social norms and beliefs (Meyer and Rowan, 1977; Chen and Roberts, 2010).

Campbell (2007) explained how different institutions influence the adoption of CSR measures. He contended that companies will to a large extent perform CSR if there are healthy financial conditions, a strong regulatory environment, including both governmental regulations and self-regulation, e.g., industrial associations, employee associations, and other independent organisations, and a normative institutional environment that encourages ethical corporate behaviour (Campbell, 2007). Similarly, Matten and Moon (2008, p. 406) also suggest that there are four fundamental institutional prerequisites for successful CSR practices, including a “functioning market” where firms “have discretion over their responses to market, social, and political drivers”, effective governmental and legal institutions that guarantee and control the market and, “act on behalf of the society to address market failures”, institutions which neither capture or are captured by market actors, and, “a civil society that institutionalises and articulates social values, to which government and market actors respond”. They further argue that the absence of these preconditions increases the possibility of irresponsible behaviour (Matten and Moon, 2008).

Since its initial development, institutional theory has become a widely used and effective tool to investigate how institutional complexities influence organisational responses to specific international, national, or regional contexts. Consequently, it

allows scholars to investigate why and how CSR exhibits different forms across different national contexts (Jamali and Neville, 2011; Kang and Moon, 2012; P Lund-Thomsen et al., 2014; Kim and Moon, 2015; Yin, 2017; Z. Chen et al., 2018; Conte et al., 2020; Soares et al., 2020), which is what Brammer et al. (2012) called, the diversity and the dynamics of CSR (Campbell, 2007; Matten and Moon, 2020).

Although institutional theory has been criticised for oversimplifying organisational behaviour due to over-emphasising homogeneity, which in turn neglects the dynamism of organisational fields and their diverse external institutional pressures (Kostova et al., 2008; Crilly et al., 2012; Herold, 2018), the combined application of stakeholder theory alongside institutional theory fills this gap by providing explanations of why organisations prioritise the demands of specific stakeholders and how they respond to and balance different societal interests.

### **3.2.2 National Business Systems**

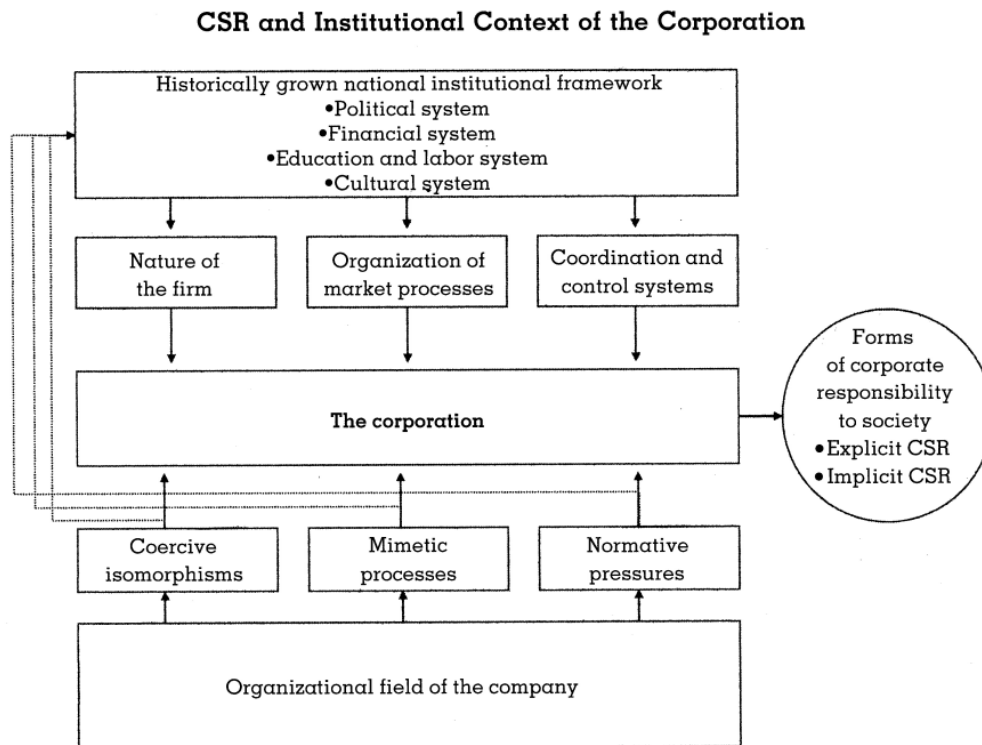
Matten and Moon (2008) proposed a theoretical assumption that CSR is a consequence of the national business systems (NBSs) in which companies are embedded. They argue that the national institutional framework and the embedded organisational field concurrently influence the CSR decisions of organisations (Hofman et al., 2017). The national historical institutional framework comprises four critical institutions, i.e., the political system, the financial system, the education and labour system, and the cultural system. More specifically, the political system is the “power of the state” over its domestic market (Matten and Moon, 2008, p. 407); the financial system provides companies with access to financial resources (Matten and Moon, 2008); the education and labour system comprises national policies on education and “labour-related issues” (Matten and Moon, 2008, p. 408); and the cultural system is the deep-rooted ethics that influence individual thinking and behaviours (Matten and Moon, 2008; Hofman et al., 2017). These four institutional constructions underpin the “nature of the firm”, i.e., “the degree to which private hierarchies control economic processes, the degree of discretion owners allow managers in running the company, and organizational capabilities to respond to changing and differentiated demands”; the “organisation of market process”, i.e., “the extent of long-term cooperation between firms within sectors, the role of intermediaries in establishing market transactions, the role and influence of business

associations, the role of personal relations, and trust in establishing market transactions”; and the “coordination and control system”, i.e., “the degree of integration and interdependency of economic processes, anonymity of employer-employee relations, the degree to which delegation takes place and trust governs relationships, the level of discretion in the task environment of employees, and the degree of responsibility of managers toward employees” (Matten and Moon, 2008, pp. 408, 409). Consequently, the four institutions influence different corporate strategic choices regarding CSR. (See Figure 2 below)

Meanwhile, CSR decision-making is also affected by the organisational field in which companies are embedded (Matten and Moon, 2008). To “gain”, “maintain”, or “repair” legitimacy within the organisational field (Matten and Moon, 2020, p. 14), the focal company respectively adapts its CSR strategies according to different institutions, e.g., laws, state policies, industry standards, social norms, and other institutional actors that may have different CSR requirements (Campbell, 2007). The process that companies undertake to legitimate themselves is achieved through three different isomorphisms, i.e., coercive isomorphism, mimetic process, and normative pressure (DiMaggio and Powell, 1983, p. 147; Matten and Moon, 2008; Yin, 2017; Zuo et al., 2017).

Coercive isomorphism is the result of formal and informal pressure on the organisation (DiMaggio and Powell, 1983). This pressure is generated from the stakeholders that depends on the focal organisation and the cultural expectations of the public (DiMaggio and Powell, 1983). Specifically, the pressure can arise from mandatory government regulation, soft industry standards, or the demands of significant investors. Contrary to the coercive process, the mimetic process is a proactive approach to cope with uncertainty (DiMaggio and Powell, 1983). When an organisation encounters problems without any obvious solutions or it lacks previous relevant experience, it naturally chooses an organisation to model within the same organisational field (DiMaggio and Powell, 1983; Matten and Moon, 2008). Normative isomorphism stems from “professionalisation”, which is the pressure from formal education and professional networks in the institutional context (DiMaggio and Powell, 1983, p. 152). University education, professional organisations, and inter-firm hiring are major sources of the normative process (DiMaggio and Powell, 1983; Zuo et al., 2017).

**Figure 2: CSR and Institutional Context of the Corporation**



Note: Solid arrow indicates direct, immediate influence; dotted arrow indicates indirect, long-term influence.

Source: Matten and Moon, 2008, p. 413

In terms of the way CSR is governed, Matten and Moon (2008) distinguish the following two categories: “implicit CSR” and “explicit CSR”. Implicit CSR represents society’s interests and the concerns of formal and informal institutions, which, “consists of values, norms, and rules that result in (often codified and mandatory) requirements for corporations”, and is encouraged by the legitimate expectations of all members of society (Matten and Moon, 2008, p. 409, 2020, p. 17). In an implicit CSR context, individual companies do not interpret CSR in their own manner, as is common in European countries, Japan, and Korea (Matten and Moon, 2008). In contrast, explicit CSR is defined as, “corporate policies that assume and articulate responsibility for some societal interests” (Matten and Moon, 2008, p. 409). Compared to mandatory requirements for CSR, explicit CSR normally involves voluntary programmes and strategies that are incentivised by the expectations of perceived stakeholders (Matten and Moon, 2008, 2020). Companies have discretion regarding CSR programmes rather than conforming to governmental authority and formal or informal institutions, e.g., US companies and companies in Africa and Latin America (Matten and Moon, 2008).

The NBSs approach has previously been used to investigate the form of CSR in China. Following Matten and Moon's (2008) framework, Hofman et al. (2017, p. 652) applied this tool and proposed that the key feature of CSR in China is neither "implicit" CSR nor "explicit" CSR, but rather is that CSR occurs in a "state-led society-driven" manner, which they term "authoritarian CSR". In particular, they believe that the Chinese government exerts significant control over the Chinese business system and market factors and that through Chinese authoritarian capitalism, the government forces companies to adopt "voluntary" CSR programmes (Hofman et al., 2017; Situ et al., 2020). Their finding of authoritarian CSR has been empirically supported by Situ et al. (2020) through their research on the environmental performance of Chinese companies. However, Yin (2017) found that the coercive political pressure fails to explain employee responsibility and the community responsibility, and that it only explains market responsibility. However, it is important to note the authoritarian nature of Chinese CSR remains contested (Z. Chen et al., 2018). Moreover, much attention has focussed on the CSR performance of SOEs rather than of SMEs (Hofman et al., 2017; Situ et al., 2020). Therefore, how the business system and institutional isomorphism affect the CSR practices of SMEs have not been determined. Therefore, neither findings of Hofman et al. (2017) nor Situ et al. (2020) can be directly applied to current CSR research. In particular, whether the CSR of SMEs is driven by government coercion or other institutional factors needs to be addressed, and this will be a key goal of this research.

Having reviewed the above literature, there is a clear rationale for applying the NBSs framework to this research but with the addition of certain changes. Specifically, rather than adopting the original NBSs framework proposed by Matten and Moon (2008), this thesis will split the education and labour system and add them to the political system and cultural system respectively. According to Hofman et al. (2017), there are not any tripartite relationships among government, corporations, and employees concerning labour relations in most Western European countries. Furthermore, labour unions are not especially effective in protecting employees' interests (Hofman et al., 2017) and when there are conflicts between employees and firms, it is generally the government that applies its political power to deal with the consequent social and labour problems



(Situ et al., 2020). Thus, the separation of the political system and the labour system may result in needless duplication when analysing employee responsibility. Also, education and culture are not isolated, as the education system reinforces the cultural system and has a long-term influence on “group” culture and traditional Chinese culture (Hofman et al., 2017, p. 658). To avoid possible duplication, this research investigates how the political system, financial system, and cultural system influence the CSR practices of SMEs instead of using the four national institutions in the same way as previous studies (Matten and Moon, 2008; Hofman et al., 2017). Furthermore, with the incorporation of the results generated from the MAW-1997, it is believed this approach will provide a thorough explanation of Chinese SME CSR.

## **Chapter 4: Methodology**

This research employed a multiple case study method to investigate how the MAW-1997 is being adapted to the Chinese organisational context and how certain contextual institutions have caused poor CSR performance among Chinese SMEs. To successfully complete a high-quality research project generally involves a four-stage research process (Bickman and Rog, 2009). The first stage requires the researcher to have a deep understanding of the topic that is to be examined and to understand whether a proposed investigation can be practically implemented. Then, the design or planning process involves the selection of a properly designed data collection method (Bickman and Rog, 2009; Maxwell, 2009). Having formulated an achievable research plan, the researcher can then implement it, before finally writing a paper to summarise and discuss the research.

The research design for this study strictly conformed to the above guidelines. The research questions were carefully identified and refined through a literature review and the proposed theoretical framework. A qualitative multiple case study approach was chosen since data from a single case, i.e., from just one company studied in this research, would have been inadequate to investigate every facet of the phenomenon under investigation (Rashid et al., 2019). Moreover, the practicality of the fieldwork, the timeframe and the feasibility of acquiring the data was considered before developing the final research plan (Bickman and Rog, 2009). Although this research adhered to the four-step paradigm, this does not imply that each procedure should follow a unidirectional sequence (Bickman and Rog, 2009). Instead, reflexivity is needed throughout the research design and this requires that the researcher focuses on the research questions at all times and makes changes to the research plan based on any new developments (Maxwell, 2009). During the current study, some of the questions that I originally planned to ask during the semi-structured interviews, the scheduled interview time, and the criteria for choosing participants were all revisited and adapted after two pilot cases.

The main study selected six Chinese SMEs that had not performed CSR effectively as its case studies. All six companies were located in Shandong, China. In total, 30 individuals participated in the main study. They included the owner-manager and at

least three employees of each company, two government officials who were serving at the local government at the town level, which is the fundamental level of the Chinese government system, and one government official each from the local HRSSB (Human Resources and Social Security Bureau), the local EPB (Environmental Protection Bureau)<sup>1</sup>, the local procuratorate, and the local court at the county level. Semi-structured interviews were adopted as the data collection tool. For owner-managers and government officials, interviews lasted 1.5 to 2 hours, whereas for employees, interviews lasted 20 to 30 minutes. All participants were recruited ethically without any coercion. They were all informed about and acknowledged the focus of the research and how their data would be used. Ethical approval from the University of Sheffield was obtained prior to any data collection. Regarding data analysis, thematic analysis was applied to analyse the six individual company cases and to generate results for the cross-case analysis.

#### 4.1 Qualitative Study

For this research, a qualitative research method was more suitable than a quantitative approach. Although, both are frequently adopted methods, they differ significantly in their epistemological and ontological positions. The following chart (See Table 3) highlights some of the key distinctions.

**Table 3: Fundamental Differences Between Quantitative and Qualitative Research Strategies**

	Quantitative	Qualitative
Principal orientation to the role of theory in relation to research	Deductive; testing theory	Inductive; generation of theory
Epistemological orientation	Natural science model, in particular positivism	Interpretivism
Ontological orientation	Objectivism	Constructionism

<sup>1</sup> In 2018 the name Environmental Protection Bureau (EPB) was changed to Ecological Environment Bureau (Sohu News, 2018). However, as this change took place after this study's research was conducted, and to avoid any confusion, they are referred to as EPB in this document.

Source: Bryman, 2016, p.32

From the epistemological and ontological perspectives, this study is orientated by interpretivism and constructionism, which reject the use of the natural science model of quantitative research. As an interpretivist, the key point is to make sense of the social world by examining its interpretation through its participants (Bryman, 2016, p. 375). Under constructionism, social properties are consequences of interactions between objects. They are neither phenomena which always exist to be investigated, nor are they independent from the construction and reconstruction process (Bryman, 2016).

Choosing a research method is determined by the study's research questions. According to Bryman (2016), the research strategy, research design, and the research method need to remain closely aligned with the research questions. Given that this study aimed to investigate the barriers to Chinese SME CSR, compared to quantitative research method, a qualitative approach was selected as the most suitable method as it focuses more on "words", "points of views of participants", and "contextual understanding" (Bryman, 2016, p. 401). A qualitative method also offers more in-depth information from fewer participants with a less structured format (Fink, 2000; Bryman, 2016). Based on the MAW-1997 and subsequent research carried out on the framework, owner-managers' views were critical in this research. Although a quantitative study could provide survey results of overall CSR performance, it would not be able to gather detailed data on issues such as the reasons for a particular CSR behaviour. Also, a quantitative study would face significant challenges testing the influence of contextual factors such as owner-managers' attitudes or cultural influence in influencing CSR behaviour (Joos, 2019).

Furthermore, it is important to note that the majority of extant SME CSR research has adopted a qualitative method (Patricia Maldonado-Erazo et al., 2020). This is largely due to the undeveloped theory on the contextual factors of SME CSR, which forces researchers to build theory rather than test it (Joos, 2019). Despite the complexity of contextual factors, there is no consensus on CSR theory, e.g., there are ongoing debates about the MAW-1997, which dominates stakeholder salience research. Instead, most research still refers to the original model rather than other researchers' developments to

the MAW-1997. In this vein, a quantitative method is unlikely to serve the need of theory building.

Although qualitative research has been criticised for a “lack of transparency”, being too personal, being “difficult to replicate” and for producing ungeneralisable results, it is nonetheless capable of integrating and adapting reliability and validity in a way that helps to assess the quality of the research (Bryman, 2016, pp. 383, 399). For external reliability, even small groups are difficult to replicate, and because of this, it is suggested that the selected cases should be as similar as possible to the original research (Bryman, 2016). Therefore, this research not only followed extant research on the MAW-1997 that selected managers as the main participant, but it also adhered to previous research on national institutional contexts which took the NBSs and organisational field into consideration. Moreover, to maintain internal reliability, my supervisor observed my research process and had full access to my research design, interview transcripts, and data analysis decisions. This, to a large extent, helped reduce my subjectivity.

Internal validity is robustly guaranteed by the use of more than one source of data (Guba and Lincoln, 1994). Regarding participants, I enlarged the sampling pool, i.e., through recruiting employees and government officials who were in charge of the companies’ cases. In this respect, views from different participants were used to corroborate one another. When a participant’s answer differed significantly from that provided by others, more participants were selected to ensure the credibility of the findings. Also, online resources were helpful to validate participants’ views, particularly concerning factual information such as the number of company employees, administrative punishments, and whether the companies were subject to any civil or criminal cases. In addition, the objective of the research, the interview process, and specific terms, e.g., what does CSR generally mean, were clarified prior to the formal interview questions. Furthermore, a key goal of the pilot conducted before the main study was to determine whether the participants fully understood the meaning of the interview questions. This helped to ensure the consistency of the research questions and of the results.

In terms of external validity, it is acknowledged that the chosen cases neither represent

all SMEs in the Chinese context nor other organisational contexts. Also, the research findings cannot be generalised to all social settings. Nevertheless, this research provides “thick description” that is relevant for theoretical development and contexts with similar organisational settings (Bryman, 2016, p. 384). The richness of the description also allows other researchers to determine the applicability of transferring some of the findings from this study to other contexts which share similar characteristics. Therefore, given the above points, this research adopted a qualitative approach.

## **4.2 Case Study**

According to Smith (1978), a case study refers to the empirical investigation of a particular phenomenon. This phenomenon can be a study of a single person, a community, an organisation, a specified policy, or a single event (Bryman, 2016). As Stake (1995) noted, “phenomena are intricately related through many coincidental actions . . . understanding them requires looking at a wide sweep of contexts: temporal and spatial, historical, political, economic, cultural, social, and personal”. Hence, the case study is an effective tool for qualitative researchers investigating how contextual factors affect the research object (Savolainen, 1996). In general, cases are chosen either due to the critical and unique nature of the case itself or because the case can be viewed as being representative of a large number of other cases (Mabry, 2008; Bryman, 2016). Compared to quantitative case studies that select samples from large populations to enable generalisation, qualitative case studies offer a deep understanding of a bounded phenomenon (Rashid et al., 2019).

In this research, multiple cases were chosen rather than a traditional single case, as the use of several cases allowed the researcher to collect more robust data (Yin, 2009). It should also be noted that investigating SMEs is highly complex since they differ significantly from large companies in their ownership and management structures (Jenkins, 2004; Murillo and Lozano, 2006; Perrini, 2006a). Because of this, a single case was deemed to be insufficient to provide sufficiently wide and deep information, and therefore a multiple case study approach was adopted.

### 4.3 Semi-structured Interview

For a study to be sufficiently detailed, it requires close observation or interviews of participants within their dynamic environment (Mabry, 2008). Structured interviews, unstructured interviews, and semi-structured interviews are the most common categories of interview used in social science research (Jennings, 2001; Bryman, 2016). Among these, unstructured interviews and semi-structured interviews are usually used in qualitative studies (Bryman, 2016). Compared to the other formats, semi-structured interviews were adopted in the current study as the most appropriate tool to access information from owner-managers, employees, and government officials. The below table (See Table 4) describes the characteristics of the three interview methods.

**Table 4: Characteristics of Structured Interview, Unstructured Interview, and Semi-structured Interview**

Structured Interview	Unstructured Interview	Semi-structured Interview
The interview reflects the researcher's concerns	The interview tends to show the interviewee's point of view	The same as the unstructured interview
To maximise the validity and the reliability of measurement	Interested in the interviewee's perspective; a very general notion of wanting to do research on a topic	Interested in the interviewee's perspective; beginning the investigation with a fairly clear focus
Research questions are clear and specific to be investigated	Tangents are acceptable, more like a conversation	Allow room to pursue topics of particular interest
Inflexible	Flexible	Relatively flexible
Question protocol needs to be followed	A single question to be asked	There is an interview guide; a list of questions should be covered

Answers should be coded and processed quickly	Rich, detailed answers	Rich, detailed answers
Besides longitudinal research, the interview happens on one occasion	The interviewee might be interviewed several times	Same as the unstructured interview; suitable for multiple-case study research

Source: Bryman, 2016, pp. 466, 467, 468

From the information provided in the table above, it can be seen that face-to-face semi-structured interviews were clearly the most appropriate tool to collect data for the purposes of this particular study. As Jennings (2001) noted, semi-structured interviews can generate insights into the attitudes, opinions, and values of participants. Therefore, semi-structured interviews were selected to provide an understanding of which stakeholders mattered the most to owner-managers and how organisational settings affected their CSR decisions. Unlike the other two types of interview, semi-structured interviews are neither too inflexible or too flexible. On the one hand, they leave room for the researcher to adjust questions according to the information provided during the interview; and on the other hand, they ensure that the interview does not stray too far from the interview guide (Bryman, 2016; Yin, 2016).

Interview questions were constructed strictly in line with the study’s research questions. To build “rapport”, questions regarding basic information were asked at the start of the interview (Leech, 2002, p. 665). As Leech (2002) recommended, this technique is an effective way of exhibiting the researcher’s knowledge and therefore making interviewees feel at ease. Even though all participants had signed the consent form (Appendix 2 and 3) and had read the information sheet (Appendix 4 and 5) before the interviews, I nonetheless started with basic questions regarding their CSR knowledge before asking more formal questions. Also, I was careful to avoid any vague or overly complicated words or jargon in the interview questions as such language might make the interviewees feel uneasy or cause confusion (Leech, 2002; Adams, 2015).

Another necessary step before conducting a formal interview is to refine and revise the information guide and interview questions (Adams, 2015; Bryman, 2016). During this



study, all interview questions were carefully discussed with my supervisor. Following these discussions, some of the topics and questions were expanded, subtracted, or recast. Furthermore, two pilot cases were used to identify whether there were any problems with the research design and interview questions. Interview questions were revised according to the feedback of the pilot study and the interview time was also adjusted. For instance, during the pilot I found that the questions asked to employees should avoid specialised words and should not be too long, given that most employees were relatively less educated. Indeed, the pilot revealed that employees could often only offer simple answers that related directly to their own work. Moreover, following the pilot the scheduled interview time for owner-managers was extended to at least 1 hour. It was found that a shorter time did not allow owner-managers to express themselves thoroughly.

#### 4.4 Sampling Criteria

##### 4.4.1 Sample Universe

In this research, sample selection adhered to the “four-point approach” proposed by Robinson (2014, p. 25). This comprises, (1) “defining a sample universe”, (2) “deciding upon a sample size”, (3) “selecting a sampling strategy”, and (4) “sample sourcing”. The term sample universe is also known as ‘target population’, which in this study was SMEs in China. The study’s inclusion and exclusion criteria for the target population were based on the official definitions of what constitutes an SME in the Chinese context. According to the ‘*Provisions on Criteria for Classifying Small and Medium-sized Enterprises*’ (Ministry of Industry and Information Technology et al., 2011) and the ‘*Measures for Classification of Large, Medium, Small and Miniature Enterprises for the Purpose of Statistics*’ (National Bureau of Statistics, 2017), SMEs in China are divided into medium-sized enterprises, small-sized enterprises, and micro-enterprises according to their industry, turnover, number of staff, and total assets.

**Table 5: Classification of Medium, Small and Miniature Enterprises**

Industry	Index	Unit	Medium-sized enterprise	Small-sized enterprises	Micro-enterprises
Agriculture,	Turnover	Million	$5 \leq Y < 200$	$0.5 \leq Y < 5$	$Y < 0.5$

forestry, animal husbandry and fishery	(Y)	Yuan			
Secondary sector of the economy (excludes the Construction)	Number of Staffs (X)	Person	$300 \leq X < 1000$	$20 \leq X < 300$	$X < 20$
	Turnover (Y)	Million Yuan	$20 \leq Y < 400$	$3 \leq Y < 20$	$Y < 3$
Construction	Turnover (Y)	Million Yuan	$60 \leq Y < 800$	$3 \leq Y < 60$	$Y < 3$
	Total Assets (Z)	Million Yuan	$50 \leq Z < 800$	$3 \leq Z < 50$	$Z < 3$
Wholesale	Number of Staffs (X)	Person	$20 \leq X < 200$	$5 \leq X < 20$	$X < 5$
	Turnover (Y)	Million Yuan	$50 \leq Y < 400$	$10 \leq Y < 50$	$Y < 10$
Retail	Number of Staffs (X)	Person	$50 \leq X < 300$	$10 \leq X < 50$	$X < 10$
	Turnover (Y)	Million Yuan	$5 \leq Y < 200$	$1 \leq Y < 5$	$Y < 1$
Transportation	Number of Staffs (X)	Person	$300 \leq X < 1000$	$20 \leq X < 300$	$X < 20$
	Turnover (Y)	Million Yuan	$30 \leq Y < 300$	$2 \leq Y < 30$	$Y < 2$
Warehousing	Number of Staffs (X)	Person	$100 \leq X < 200$	$20 \leq X < 100$	$X < 20$
	Turnover (Y)	Million Yuan	$10 \leq Y < 300$	$1 \leq Y < 10$	$Y < 1$
Postal	Number of Staffs (X)	Person	$300 \leq X < 1000$	$20 \leq X < 300$	$X < 20$
	Turnover (Y)	Million Yuan	$20 \leq Y < 300$	$1 \leq Y < 20$	$Y < 1$

Hotel	Number of Staffs (X)	Person	$100 \leq X < 300$	$10 \leq X < 100$	$X < 10$
	Turnover (Y)	Million Yuan	$20 \leq Y < 100$	$1 \leq Y < 20$	$Y < 1$
Catering	Number of Staffs (X)	Person	$100 \leq X < 300$	$10 \leq X < 100$	$X < 10$
	Turnover (Y)	Million Yuan	$20 \leq Y < 100$	$1 \leq Y < 20$	$Y < 1$
Information transfer	Number of Staffs (X)	Person	$100 \leq X < 2000$	$10 \leq X < 100$	$X < 10$
	Turnover (Y)	Million Yuan	$10 \leq Y < 1000$	$1 \leq Y < 10$	$Y < 1$
Software and information Technology service	Number of Staffs (X)	Person	$100 \leq X < 300$	$10 \leq X < 100$	$X < 10$
	Turnover (Y)	Million Yuan	$10 \leq Y < 100$	$0.5 \leq Y < 10$	$Y < 0.5$
Real estate	Turnover (Y)	Million Yuan	$10 \leq Y < 2000$	$1 \leq Y < 10$	$Y < 1$
	Total Assets (Z)	Million Yuan	$50 \leq Z < 100$	$20 \leq Z < 50$	$Z < 20$
Property management	Number of Staffs (X)	Person	$300 \leq X < 1000$	$100 \leq X < 300$	$X < 100$
	Turnover (Y)	Million Yuan	$10 \leq Y < 50$	$5 \leq Y < 10$	$Y < 5$
Leasing and commercial service	Number of Staffs (X)	Person	$300 \leq X < 1000$	$100 \leq X < 300$	$X < 100$
	Total Assets (Z)	Million Yuan	$80 \leq Z < 1200$	$1 \leq Z < 80$	$Z < 1$
Other industries	Number of Staffs (X)	Person	$100 \leq X < 300$	$10 \leq X < 100$	$X < 10$

Source: National Bureau of Statistics, 2017

The above table (Table 5) explicitly shows the boundaries of different sized enterprises.

However, there is a conflict concerning the upper limit of the size of a medium enterprise between the two sets of official criteria. In general, there are two indicators which guide recognition of medium-sized companies - annual turnover and number of staff. According to the Provisions (Ministry of Industry and Information Technology et al., 2011, para. 7), a medium-sized company that exceeds either of the upper-limits for annual turnover and number of staff (for that particular industry) should be classified as a large company; whereas according to the Measures (National Bureau of Statistics, 2017, n. 1), all companies should fit both of the lower-limits (annual turnover and number of staff) and if a company does not, it should be downgraded and categorised as a small enterprise. Take for example a company in the catering industry that generates more than 100 million RMB a year in revenue with less than 300 employees. According to the Provisions (Ministry of Industry and Information Technology et al., 2011), it should be categorised as a large company. However, based on the Measures (National Bureau of Statistics, 2017), it is a medium-sized company. Therefore, in this study, to avoid any confusion, the sample selection avoided any companies that crossed any of the boundaries in either the Provisions or the Measures.

#### **4.4.2 Sample Size**

Compared to quantitative research, there is no definitive sample size for a qualitative study at the initial stage (Patton, 1990; Malterud et al., 2016). To retain flexibility, a qualitative case study does not require a fixed number before the research begins (Malterud et al., 2016; Sim et al., 2018). However, there does need to be a minimum and maximum range (Robinson, 2014). This range is decided from both theoretical and practical perspectives (Robinson, 2014; Sim et al., 2018). More specifically, according to Malterud et al (2016), whether the sample size can generate enough “information power” depends on “the aim of the study, sample specificity, use of established theory, quality of dialogue, and analysis strategy”.

On top of the conceptual guidelines, many scholars have generated numerical standards for an appropriate sample size based on empirical investigation (Sim et al., 2018). For example, Stake (2006) suggested that the case number should not be fewer than 4 nor more than 10. For in-depth interviews, Hennink, Kaiser, and Marconi (2017) have found that code saturation is achieved after 9 interviews, and meaning saturation, which

occurs when sufficient data is collected to allow the meaning of a phenomenon to be fully understood, requires between 16 and 24 interviews. With respect to different analysis methods, Ando, Cousins, and Young (2014) believe that 12 interviews are sufficient for thematic analysis, whereas 10 to 13 interviews are adequate for the theory-based content analysis (Francis et al., 2010).

After taking the above conceptual and numerical guidelines into consideration, six cases were chosen in this research. Each case comprised 4 participants, including one owner-manager and three employees. Furthermore, 6 government officials were recruited to ensure internal validity. However, I was fully aware that these numbers could not be fixed in advance as it was not possible to predict participant availability/willingness prior to the interview. In addition, whether a participant can offer robust information directly affects the quality of the data and therefore influences data saturation.

#### **4.4.3 Sampling Strategy**

This research aligned with most case study-based research that adopts purposive sampling as its selection tool (Stake, 2006; Yin, 2009). Unlike probability samples, nonprobability samples are applied to provide data of special experiences from specific participants, and are often used to investigate a perceived social problem or social issue (Henry, 2009; Yin, 2009; Robinson, 2014; Bryman, 2016).

In this research, the first sampling criteria related to the companies' industry and cases were limited to the secondary sector of the economy (excluding the Construction Industry). According to the Measures (National Bureau of Statistics, 2017, n. 2), the secondary sector of the Chinese economy includes the mining industry, manufacturing industry, and the electricity, heat, gas, water production and supply industries. All these industries are more closely correlated to air quality, water quality, and natural resources than other industries (Cole et al., 2005; Xiao Li et al., 2019; Liu et al., 2020; Sun et al., 2020), and thus they represented suitable research cases for the purposes of this study.

Second, China is too large to be investigated as a whole. Therefore, considering the issue of practicality, it was deemed reasonable to restrict the study region to a single

province. Compared to other parts of China, North China has long been viewed as the most polluted area of the country (Chen et al., 2008; Pu et al., 2019). Of China's northern provinces, Shandong has the largest economy and is very densely populated (Han and Zhao, 2012; Shi et al., 2019). Shandong also faces severe problems such as poor air quality, ground water contamination, and heavy metal soil pollution (Han et al., 2011; Huang et al., 2011; G. Li et al., 2013; M. Zhang et al., 2019; Zhuo et al., 2019). Therefore, the sample selection was limited to Shandong SMEs in the secondary sector of the Chinese economy.

Another factor for sample selection was poor CSR performance. Given that this research aimed to investigate reasons why CSR so often ends in failure in the Chinese SME context, no matter which level of responsibility SMEs fail to perform, it was necessary that the selected sample comprised those companies which were not socially responsible. One of the most effective ways of identifying such firms was by identifying those that have been punished for not fulfilling social responsibility. As environmental protection and labour issues are two of the major problems relating to Chinese CSR (Fetscherin et al., 2010; Kolk et al., 2015), lists of companies which had been punished by the Environmental Protection Bureau (EPB) and the Human Resources and Social Security Bureau (HRSSB) were used to determine the sampling pool. However, it should be noted that it was much less easy to identify companies that have not performed well in terms of ethical responsibility or philanthropic responsibility without deep contact with the companies. Thus, snowball sampling was adopted to help identify such companies.

#### **4.4.4 Sourcing Sample**

Having confirmed the sample universe, the sample size and the sampling strategy, I started to recruit participants. Firstly, I contacted 17 municipal governments in Shandong province to see whether they were interested in this research. Two municipal governments, City A and City B replied positively, whereas the others did not respond to my requests to provide company punishment records. When I requested direct communication with government officials, local officials from City B refused due to personal reasons. Thus, companies from City A were finally selected.

From the lists of punished enterprises in 2017, i.e., the year before the fieldwork was conducted, it was apparent that 46 companies had been punished both by the local EPB and local HRSSB. I attempted to make contact with these 46 companies, but only 2 owners agreed to be interviewed. This low response rate was perhaps unsurprising because being punished is undignified and this likely reduced many potential participants' willingness to take part. Given the low response rate, I then contacted all companies that appeared once on either of the two lists. Doing so led to another 9 companies expressing an interest to participate. However, data from 2 of the 11 companies who agreed to participate could not be used in this research, as the owners of Company A and Company B changed their minds during the pilot study. On the day of my meeting with Company A, the owner refused to be interviewed. Instead, he asked that one of his mid-level managers be interviewed. For Company B, even though the owner and I had an extended conversation, he stated that he was not willing to recruit his employees to be interviewed as well. Subsequently, he did not reply either to my phone call nor to my online messages. Therefore, I contacted the other 9 companies again and emphasised the information on the information sheet (Appendix 4 and 5). Following this, 4 companies decided not to participate which meant 5 companies remained willing to take part in the research. As I felt this sample was insufficient, I asked the owners of the 5 companies to recommend any contacts who they felt would meet the sampling criteria and might be willing to participate. As a result, the owner of Company F voluntarily joined the study having heard about it from the owner of Company H. However, it should be noted that Company F had not been punished by the government, but the owner confirmed it hadn't pursued any higher-level social responsibilities. Consequently, it conformed to the sampling criteria which aimed to identify participants who would be able to shed light on the reasons for SME CSR failure in China.

#### **4.5 Analytical Framework**

“Data never speaks for itself”, and this therefore means that the researcher must interpret the “meaning” of the data (Schreier, 2012, p. 2). With respect to case study research, there are two steps for data analysis (Leedy, 2015, p. 276), 1. “Categorization and interpretation of data in terms of common themes”, and 2. “Synthesis into an overall portrait of the case(s)”.

Two frequently adopted methods, content analysis and thematic analysis, are widely agreed to help researchers identify themes (Namey et al., 2008). Content analysis focuses attention on the “frequency and saliency” of keywords, which allows the researcher to acquire “raw” data without much interpretation (Namey et al., 2008), whereas thematic analysis, focuses more on the implicit and explicit ideas of the transcription work rather than explicit keywords (Namey et al., 2008; Clarke and Braun, 2014).

This study adopted thematic analysis as the analytical tool to generate themes for further analysis. First, I prepared the texts for further analysis, by transcribing the interview recordings and translating them from Chinese to English. Then, in line with research best practice, I read and reread the transcripts to start the initial coding (Braun and Clarke, 2006; Namey et al., 2008; Clarke and Braun, 2014; Bryman, 2016). Codes are small pieces of the transcripts (Bryman, 2016) and producing codes involves a simple analysis of participants’ words. The next step was to develop the codes into themes. This is usually done by software like NVivo when there are large data sets (Braun and Clarke, 2006; Namey et al., 2008). However, for this research, although there were more than 30 participants (including the pilot study), the interviews for employees were relatively short and thus a manual coding method was adopted. Having identified the frequencies of codes across the 6 cases, I developed themes and sub-themes based on both the transcripts and on theoretical grounds. All themes and sub-themes were carefully reviewed and refined under the guidance of my supervisor. Furthermore, my supervisor audited the data analysis process and helped guide me to find the possible relationships between the literature and the highlighted codes. This significantly improved the quality of the data analysis.

#### **4.6 Ethical Considerations**

Research ethics is one of the most significant aspects of social science research (Bryman, 2016). According to Diener and Grandall (1978), there are four basic ethical principles in social research: “whether there is harm to participants; whether there is a lack of informed consent; whether there is an invasion of privacy; and whether deception is involved” (Bryman, 2016, p. 125). Research can cause damage to



participants, including not only physical harm but also potential mental health problems such as harm to psychological development, loss of self-esteem, and stress (Diener and Crandall, 1978, p. 19; Bryman, 2016). Therefore, protecting participants requires the researcher to avoid any harmful behaviours.

First, the researcher must always be honest and have integrity. In the current study, before the formal interview, all the participants received the information sheet (Appendix 4 and 5) and signed the informed consent form (Appendix 2 and 3). Due to the participants' language requirements, both the information sheet and the consent form were translated into Chinese. As a result, the participants were fully informed of all information relating to the research, i.e. the nature and the purpose of the research, the methods used, technical terms, how much time and effort will be required, how their data will be processed, and potential harms. The recruitment process was voluntary and was conducted without any coercion. All the participants were made fully aware that they could quit the interview and withdraw their data whenever they wanted without providing any explanation.

Second, confidentiality must be secured. In this study, all personal data was treated in strict confidence. The companies, the city, and participants were all given pseudonyms. The participants were reassured that their information would only be used for this research and in further research by myself. Audio recording was used to enable accurate transcription. If the participants felt uncomfortable with the recording or they wished not to be recorded, written notes were adopted instead.

In addition, prior to the data collection, this research attained ethical approval from the University of Sheffield (Appendix 6). Specifically, the Ethics Administrator of the School of East Asian Studies carefully reviewed the online application form, the information sheet and the consent form used in this study.

#### **4.7 Conclusion**

This chapter has described the research design process for the current study and has provided a robust justification for why a qualitative multiple case study approach was a suitable choice to generate data to address the research questions. Participants are at

the core of this research, given that their understandings and expectations on CSR and their worries about CSR initiatives are the fundamental issues under investigation. How owner-managers interpret CSR and manage relationships with their stakeholders, the rationale for their implementation of CSR, and their potential concerns for CSR programmes can offer deep insight about SME CSR in the Chinese context. In-depth semi-structured interviews were thus appropriate for collecting information from the participants. This is because, on the one hand, semi-structured interviews are relatively flexible, they allow participants to offer deep insights and they allow questions to be adapted during the interview process. On the other hand, they also allow the researcher to control the interview within the prepared framework.

The chapter has also outlined how the recruitment of employees and government officials added accuracy and credibility to the data and to some extent ensured the internal validity of the gathered information. Although the interview questions were initially constructed in line with the theoretical framework and the research questions, they were amended after the pilot study and during the interviews. The pilot cases were vital to the success of the main study. They allowed the researcher to rectify impracticable aspects of the research design and to identify missing points. Finally, the chapter has demonstrated that the whole research process was conducted ethically, including the sample selection, the interviews, and the data processing. Doing so has meant that the participants of this study have been protected from any harm.

## **Chapter 5: Findings I**

### **5.1 Introduction**

This chapter presents the research findings of the selected cases. More specifically, it aims to answer the first research question concerning what are Chinese SME owner-managers' perceptions of CSR and current CSR practices in China, including how do they understand what CSR is, what CSR programmes have they participated in, what are their motivations for carrying out CSR activities and what barriers to CSR do they believe exist. Following the qualitative analysis steps suggested by Stake (1994, 1995), Creswell (1998), and Leedy (2015), researchers should organise and categorise the data they collect before starting analysis (Vohra, 2014). This should be followed by the interpretation of a single case (Stake, 1995), and then by the identification of patterns and cross-case synthesis (Creswell, 1998).

The description of the single case is also named “within-case analysis” (Creswell, 1998, p. 63). As Stake (1995) argued, the glamour of the case study is to identify the peculiarity of each case. Furthermore, “to probe issues” or “to aggregate categorical data” is “subordinate to” the deep understanding of the complex case itself (Stake, 1995, p. 77). Thus, in the current study, the direct interpretation of the single case begins with a brief introduction to the basic information of the case study companies. Then, based on the first sub-research question, four theoretical categories are discussed respectively to the individual case.

Following the individual within-case analysis, an inductive method is then adopted to further synthesise the data. The cross-case analysis involves the expansion, breakdown, merging, and creation of the initial interpretation (Vohra, 2014). It allows the researcher to combine what has been found in the individual cases, including their uniqueness and commonalities, and then to draw conclusions about the phenomenon (Stake, 2006).

Prior to the analysis of the main six cases, the findings from Company A and Company B will be presented. These companies were the two pilot cases used to identify problems and deficiencies of the research design. The results of the two pilot cases made it clear that participants must be carefully recruited. Specifically, the cases showed that owner-managers are irreplaceable for this research, given the data collected from mid-level

managers can only be used to complement owner-managers' information. They also showed that interview questions for employees must be as simple as possible because employees cannot provide accurate information when they are unfamiliar with technical words or when the question concerns an issue outside of their direct area of responsibility.

The following table (See Table 6) shows the pseudonyms given to the eight companies that participated in the study (both the pilot and the main study) and the specific industries in which they operate as well as the reason they were chosen as part of the sample. All eight companies operate in the secondary sector of the Chinese economy and were located in City A, Shandong Province.

**Table 6: Profiles of Interviewed Companies**

Company name	Industry	Sampling reason
Company A	Leather Factory	Punished by the local EPB
Company B	Paper Mill	Punished by the local EPB and local HRSSB
Company C	Power Station	Punished by the local EPB
Company D	Tyre Factory	Punished by the local HRSSB
Company E	Textile Mill	Punished by the local EPB and local HRSSB

Company F	Flour Mill	Lack of higher-level CSR activities
Company G	Paper Mill	Punished by the local EPB
Company H	Anti-counterfeiting Label Factory	Punished by the local EPB

## 5.2 Analysis of Pilot Study Cases

### 5.2.1 Company A

#### Basic Information

Company A is a leather factory. Due to an increasingly mechanised manufacturing process, employee numbers have been cut to around one thousand in recent years. Annual income from production is about RMB 9,000,000. The local EPB punished Company A in 2017 for fly-tipping. Interviewees included one deputy manager and four leaders, one each from the environmental protection department, product quality department, human resource department, and safety production department. Unfortunately, the owner-manager of Company A was too busy to be interviewed. In addition to the mid-level managers, I also interviewed four employees.

#### Understandings of CSR

Mid-level managers in Company A all believe that the company's major social responsibility is to provide jobs for society. This comprises offering stable income to employees, which to some extent helps their families meet the basic needs of life. According to the deputy manager of Company A, "a thousand employees stand for a thousand families", and that guaranteeing families' livelihoods is the foundation of social stability. In addition, the mid-level managers all stated that they believe it is

compulsory for the company to take legal responsibility. Managers also displayed positive attitudes to ethical responsibility and philanthropic responsibility.

### **Specific Actions and Level of CSR**

**Economic Responsibility:** Due to not being able to interview the owner, the other managers were reluctant to discuss the company's profitability in detail. Therefore, it is hard to judge whether Company A has performed well in terms of its economic responsibility or not.

**Legal Responsibility:** According to the leader of the environmental and safety department, other than the recent dumping of waste, Company A had not been punished by the EPB in the last five years. Although employees frequently work overtime, the time does not contravene the regulations of the Labour Law and the payment provided for overtime working is double or triple standard pay depending on whether it occurs on weekends or holidays.

**Ethical Responsibility:** According to the manager of the HR department, Company A offers employees more than just a job. It also provides free professional skill development training courses for employees who want to pass exams and acquire certifications. This training includes courses such as Certified Public Accountant Certification, Bar Certification, Special Appliance Operator Certification, Senior Maintenance Technician as well as Senior Electrician. Furthermore, training sessions are normally undertaken within working hours. Once employees pass exams, they receive cash awards of up to RMB 10,000. In addition to professional training courses, there are management courses like time management, leadership management, and emotional management. The company aims to cultivate more middle and senior managers from its employees. Employees also receive extra benefits on public holidays. For example, a bag of rice and a large bottle of oil is usually given to each employee on traditional festivals.

**Philanthropic Responsibility:** Employees who face extreme difficulty in supporting their families can get RMB 5000 from the company every year. The company also donates money to society. However, because only mid-level managers for specific

departments of the company were interviewed, they did not know the number of donations or whether the company has achieved other philanthropic responsibilities.

### **Motivations for CSR**

The primary motivation comes from the owner as the managers reported that he makes all decisions concerning the company's daily operations and CSR. Meeting government needs, i.e., government policies, rather than the law is another important driver. Employees have limited influence on CSR. Employees' main concerns are wages and benefits, which largely depend on the owners' will.

### **Barriers to CSR**

Lack of financial resources was identified as the biggest problem for the company. The company has limited funds to invest in CSR programmes and has problems in dealing with rapidly changing government policies. Managers reported that government policies change regularly. In some cases, when the company is improving its environmental protection according to government policy A, for example, by using water to reduce dust, policy B is suddenly introduced which requires the company to build a shield to block dust. Moreover, when environmental policies are initially brought into effect, the local government typically demands that the new standard be achieved in less than a month. This causes significant difficulties for SMEs such as Company A because they must rapidly remove equipment designed to meet old policies and introduce new equipment necessary for the new policies. The managers reported that the resources this constant cycle involves limits the company's investment in other areas. The employees reported, that the owner lacks the motivation to improve employees' wages and benefits and that there is limited incentive for the owner to treat employees well.

## **5.2.2 Company B**

### **Basic Information**

Company B is a paper mill that was established in 2003. The owner is the main manager. The company has less than 200 employees. A tenth of employees are disabled. In its early years, the company's main business was producing monochrome newsprint.

Company B made significant profits in its initial two years. However, with the industry upgrading to polychrome newspaper, its old equipment no longer met market demand. Therefore, from 2008 the company made little profit. In 2010, it started running at a loss. To turn this situation around, in 2013 the owner mortgaged the company's land and its old equipment to take out a one-year loan to import new equipment from Germany. Due to the bank's requirement that the company needed to pay back the initial loan before it would approve any new loans, the owner borrowed money from a friend and repaid the loan of RMB 10,000,000 in 2014. However, despite repaying the initial loan the bank nonetheless stopped lending money to Company B for a period of time. Since then, Company B has continually experienced a cash flow problem. To address this the owner cut the number of employees to around 100 and managed to secure another loan against the new equipment for RMB 10,000,000 from the bank. In addition, the company started to raise money from the public. Due to a failure to obtain its Environmental Impact Assessment (EIA) license in 2017, the company was temporarily shut down by the government before the interview. It was not allowed to reopen until it passed the EIA procedure. In this case, the only participant was the owner himself. He was reluctant to arrange interviews with employees on the day of his interview. He stated that the reason was that there had been wage arrears for a long time, and he stated that, "*employees would misinform you*". Given this, I interviewed two government officials who were familiar with the company in order to verify the owner's interpretation of his company's situation and to provide more information.

### **Understandings of CSR**

The owner believes that compared to large companies, it is difficult for SMEs like his to take more social responsibility. He reported that he believed that it is the basic responsibility of a company to comply with legal rules, including protecting the environment, paying taxes, and to follow certain other laws. Although he stated that he would like to take more responsibility, he said that if he attempted to do so, the company would not survive. However, he emphasised his ambition and promised to pay wage arrears, social insurance, and debts if the company could get its EIA license.

### **Specific Actions and Level of CSR**



Economic Responsibility: The company has not generated any profit for almost ten years. At the time of the interview, production had been suspended for half a year. The company owed the bank credit for its RMB 10,000,000 loan and had an obligation to the public for RMB 80,000,000.

Legal Responsibility: The company did not have the necessary EIA licence to produce paper. It was also in breach of the Labour Law due to the delay of paying salaries and social insurance for more than half a year.

Ethical Responsibility: When operating, the company provides positions for 20 disabled people.

Philanthropic Responsibility: The company had not made any charity donations.

### **Motivations for CSR**

Company B's main motivation for CSR comes from government pressure rather than from legal requirements. In this respect, it is similar to Company A. Since 2006, the company has not held the necessary EIA licence to enable it to operate legally. However, it was only when the central government started paying attention to environmental protection that the local government at various levels started to thoroughly inspect unlawful environmental behaviours. Subsequently, the company began to improve its electricity facilities and water disposal system and applied for its EIA licence after the "*environmental protection storm*" triggered by the shift in central government attention.

### **Barriers to CSR**

The owner asserted that the biggest barrier to performing CSR is financing. He added that without external financial support, Company B could not reopen. The second obstacle was the owner himself. During the interview it became clear that he does not have a strong vision concerning the future development of his business, including a detailed understanding of market trends or clear thoughts about the internal organisational structure of his company. His unwise investments have further worsened the company's financial status and poor internal management has wasted resources.

### 5.2.3 Summary of Pilot Cases

From the above two cases, it is possible to produce the following cross-case analysis to address the research questions. To elaborate the answers, the first research question is split into four sub-questions:

- 1) How do owner-managers of Chinese SMEs understand CSR?

For Company A and Company B, social responsibility comprises offering employment to the public and conforming to the law and government requirements. By doing so, they feel that they help to maintain social stability.

- 2) What is the current level of CSR in Chinese SMEs?

Because the pilot study only included two companies, it did not produce sufficient data to determine the level of CSR Chinese SMEs have achieved. Individually, Company A has achieved basic economic responsibility, partial legal responsibility and, to a certain degree, both ethical responsibility and philanthropic responsibility; whereas Company B has only fulfilled partial ethical responsibility, but contributes nothing to the economic, legal, and philanthropic agenda.

- 3) What are the motivations for SMEs to undertake social responsibilities?

Government is the main driving force of CSR initiatives, especially regarding legal responsibility. Owners motivate ethical practices and donations to charities.

- 4) What are the obstacles to CSR faced by SMEs?

Lack of financial resources is the major challenge for Chinese SMEs to engage in CSR. On the one hand, a lack of funds limits the amount of CSR activities SMEs engage in; on the other hand, SMEs have less available resources to deal with uncertainties, e.g., rapidly evolving government policies. Another barrier relates to the decision making by owner-managers. Specifically, a lack of management skills and CSR awareness are two problems that hamper owner-managers' ability to implement CSR activities.

5. Who and what really counts in the SME CSR context?

Government is the most salient stakeholder for Chinese SMEs, followed by employees. Although employees rank second, their impact on CSR decisions are relatively weak. Other stakeholders have less influence on the CSR activities of Chinese SMEs.

A key conclusion that emerged from the pilot study was that interviewing leaders of departments is not an efficient way to get information. The mid-level management team members are only in charge of their department. Therefore, they cannot provide a holistic view of the company at a higher level and it became clear that the owner alone tends to make the decisions about whether their company acts responsibly or not. Given this, the attitude of the owner is more critical than that of leaders of departments. Moreover, the pilot revealed that managers of departments worry about revealing their company's secrets. Therefore, they are often reluctant to provide certain necessary information. Although owners also may not wish to reveal all the facts about their companies, compared to managers of departments, owners have the discretion to reveal information as they want. Consequently, it was determined that interviewing owners could offer more information to help this study. Hence, whether the owner-manager agreed to be interviewed became a prerequisite for the later recruitment of participants.

Another point that emerged is that the interview questions for employees should not be too complicated. First, it became clear that expressions used in the questions needed to be colloquial. This is because many employees often have a relatively low level of education. The first draft of the interview questions included some relatively professional words which many of the employees of the pilot cases found difficult to understand. If these words had been used in the main study, the confusion they would have caused would have wasted valuable interview time. This was a particularly important consideration because, compared to the interviews with managers, interview time with employees was restricted as they could only be conducted during employees' relatively short rest breaks. Thus, the pilot helped to inform the decision to simplify the interview questions put to employees. Secondly, it became apparent that questions needed to relate to employees' personal working experiences rather than to the whole company's operation.

Having discussed the above experiences with my supervisor, I restructured the interview questions and contacted companies that were willing to join the research.

Since insufficient information was acquired from the participants from Company A and Company B, they have not been included in the main study.

### **5.3 Within-case Analysis**

#### **5.3.1 Company C**

##### **Basic Information**

Company C is a power station. It was established in 2003. It has about 200 employees. The average age of the employees is more than 45 years old, and the average wage is RMB 3,000 per month. The working pattern follows a three-shift system. The main business for Company C is selling steam gas to other factories and electricity to the government. The manager was hired in 2011. At the time of the research, he was 40 years old. His highest level of education is a bachelor's degree. Except for this power station, the owner of Company C has another five companies in the neighbourhood. The owner is more than 50 years old and also holds a bachelor's degree. I interviewed the manager, and three employees in Company C.

##### **Understandings of CSR**

The manager of Company C stated that he believes social responsibility primarily comprises surviving and continuously providing jobs for employees within the higher-standard legal framework. He suggested that making a profit is the foundation for all other social responsibilities and that conforming with the law is essential along with making a profit. He also said that promoting employment to help the government maintain social stability is a must-do task for SMEs. The interpretation of CSR he provided suggested that three social responsibilities intertwine with each other. Specifically, he stated that philanthropic responsibility carries a sense of obligation for the company and that this has been the case for many years.

*“China is a traditional agricultural country. With the advance of agricultural technology, it saves a great deal of time and effort for agriculture. Compared to the past, it does not need many human resources. Establishing a small or medium-sized company is a smart way to absorb the redundant rural labour force.” (Manager, Company C)*

## **Specific Actions and Level of CSR**

**Economic Responsibility:** Company C went bankrupt in 2017 because it ran out of cash. Having experienced liquidation and reorganisation, it restarted production in 2018. Its annual income is between RMB 200,000,000 to RMB 300,000,000. The exact level of each year's profit were not revealed by the owner and the manager. According to the manager, the price of raw materials accounts for 60% to 70% of the company's costs. Whether the company makes a profit heavily depends on the price of coal. From 2004 to 2009, Company C continuously suffered losses due to the high price of coal. The average loss was RMB 20,000,000. It began making a profit in 2010. Two peaks of profitability came in 2015 and 2016, when the company made profits of RMB 30,000,000 and RMB 50,000,000 respectively. Nevertheless, due to the increase in coal price in 2017, it suffered negative growth again that year.

**Legal responsibility:** Company C has partly achieved its legal responsibilities. For example, it pays wages on time and adheres to the Labour Law to pay the "five insurances" for employees, including endowment insurance, medical insurance, unemployment insurance, industrial injury insurance, and maternity insurance. The company also provides respirators, safety gloves, and earmuffs to employees periodically. Each month, there is an examination concerning safety rules to test employees' knowledge of these rules. According to the safety regulations, the company provides free health examinations for every employee once a year. However, the company lacks an EIA licence to operate, given its flue gas treatment system has not been approved by the authorised agency. Furthermore, the company has breached overtime working rules. Specifically, employees in Company C are required to work eight hours a day, six days a week, without any overtime payment.

**Ethical responsibility:** If an employee's family encounters living difficulties, or a family member suffers a critical illness, Company C calls for other employees to help them. The higher and middle management also make anonymous donations. When there are extremely hot days, high-temperature compensation is provided. Additionally, the company gives employees food or other commodities worth around RMB 100 during each traditional festival.

Philanthropic responsibility: Company C has responded to the ‘One-Day Charity’ initiative promoted by the government. In addition, staff voluntarily teach basic knowledge about utilising electricity safely to other neighbourhood factories. Moreover, Company C has provided household heating to the neighbourhood county since 2006. Although doing so was previously required by the company’s contract with the local government, which stated that given the company occupies some of the county’s land resources, in exchange, it should offer free heating during the winter for 10 years. The contract ended in 2016, but in 2017 Company C decided to continue providing heating to the county, at a cost of RMB 2,000,000.

### **Motivations for CSR**

CSR is not a voluntary action for Company C. Indeed, the most critical reason that Company C implements CSR is institutional pressure from government. In particular, it forces the company to act consistently with the law. Concerning regulations which are not strictly enforced, such as the housing provident fund, which is a welfare programme designed to help employees purchase a house, the company simply ignores them.

The manager pays for insurance to mitigate the risk from potential accidents and disasters:

*“If employees are injured during work, without injury insurance, we would have to pay large compensation. The cost of insurance is much less than the potential cost of compensation.” (Manager, Company C)*

Reputation is another motivation.

*“Some of the owners of SMEs are from rural areas. Once they become wealthy, they like to give back to their hometown. To be honest, whether the company is responsible or not depends on the owner or the manager’s thoughts.” (Manager, Company C)*

### **Barriers to CSR**

The first barrier is a lack of human resources. Considering its weak profitability, Company C cannot afford the necessary wages to hire highly skilled electricians. However, the power station needs qualified electricians. This means that the company

generally only hires students or electricians who have only a relatively limited degree of electrical knowledge. Yet, the owner stated that few students wish to come to his company, even those from technical schools, which are inferior to normal universities.

*“Our company is a small company located far away from the centre of the developed area. A limited number of students choose to come to our company due to the low wages and geographic disadvantage.” (Manager, Company C)*

Another difficulty arises from the manager’s sense of insecurity, which is caused by the unstable nature of government policies. The manager mentioned that regulations and standards change rapidly. According to the manager, the company invested large amounts of money in improving its equipment in 2016. During the construction period, the government lifted the standard of the equipment required. This meant that what the company had bought was useless and had to be replaced. As a result, the company was forced to invest more funds to buy equipment that met the new standards. The manager reported that “*campaign-style*” law enforcement also brings uncertainty, given that supervision teams from the central government and the local government may have different standards. Besides, the owner feels uncertain about the future of his company. For instance, he questioned whether the company may be shut down due to the government’s aim of saving energy. He stated that this limits further investment in equipment and employees.

*“I have heard that power stations below a certain size would be cut or merged with other neighbourhood power stations in the coming years. My company would likely be on the list of cut or merging companies. Under this circumstance, I will definitely not upgrade the equipment nor increase wages or other material benefits, because I won’t be able keep my factory or my employees.” (Manager, Company C)*

The third barrier is the lower government support for financing relative to larger companies. The manager claimed that compared to large companies and state-owned enterprises, there are less favourable policies for SMEs. What is even worse, the implementation of the limited favourable policies that do exist for SMEs is extremely poor.

The last difficulty comes from the manager himself. When I raised the issue of overtime working, the manager did not know that overtime working is illegal. Instead, the manager stated that overtime working is quite common in China and that this situation will not change in the short term because it is rooted in Chinese customs.

### **5.3.2 Company D**

#### **Basic Information**

Company D was set up in 2010. After completing construction, it started to operate in 2012. The company has around 800 employees. The average age of the employees is 40 years old, and the average wage is RMB 5,000 per month. The working pattern follows a three-shift system. Company D was not initially successful and this led to bankruptcy in 2017. Before bankruptcy, the main business of Company D included making and selling tyres all over China and importing rubber and exporting tyres. Due to heavy financial pressure, it was temporarily closed for five months, from August 2017 to January 2018. Following five months of liquidation and reorganisation, the company reopened in 2018. Since then, the company has become a supplier to a large tyre company, as its sole activity. The local HRSSB punished the company for wage and insurance arrears in 2017. The company was also sued for defaulting on its payments to creditors. The manager came to the company in 2013. He was a higher-level technician before being the manager. He is more than 40 years old and his highest educational achievement is a high school degree. Participants in this case included one manager and three employees.

#### **Understandings of CSR**

According to the manager of Company D, the company's fundamental social responsibility is to contribute to social stability by making profits and offering employment. The manager believes that paying wages and insurance to employees on time is crucial to social stability.

*“To help the government maintain a stable social environment is the primary task for us. There are approximately 800 employees in our company. Counting on employees’*



*wives or husbands, sons or daughters, parents of both the family, our firm is crucial to the lives of more than five thousand people. Our employees mostly come from nearby villages. Ensuring their wages and insurance creates stability in the surrounding area.”*

Adhering to legal requirements is another requisite for CSR. The manager stated that other higher social responsibilities including making philanthropic donations will be achieved when the company more fully recovers from bankruptcy. The manager emphasised he aims to take more ethical responsibility and philanthropic responsibility once he has repaid the money owed to creditors.

### **Specific Actions and Levels of CSR**

**Economic responsibility:** Company D did not fulfil its economic responsibility before 2018. Due to bad management, weak cash flow triggered its temporary shutdown in 2017. After bankruptcy and restructuring, the company re-established its operational aims and direction. It started to generate profit from April 2018. The profit for that month was RMB 14,000,000. From then until my interview with the manager, it had maintained profitability at around that level.

**Legal Responsibility:** The local HRSSB penalised the company for the years' worth of wage and insurance arrears. Employees work 8 hours a day, 365 days a year without any extra payment, which is a serious breach of the Labour Law. Furthermore, Company D was sued for defaulting on loans of both its banks and other creditors. However, safety products like protective shoes, industrial-grade dust masks and industrial gloves are distributed according to safe production regulations.

**Ethical Responsibility:** Safety products used in the company are all of the highest standard. The company also provides heating allowance, night shift allowance, and full attendance allowance, which are RMB 100, RMB 5 to RMB 10 per night, and RMB 200 respectively. The company also distributes a bag of rice or a bottle of oil to each employee during traditional Chinese festivals.

**Philanthropic Responsibility:** Before the bankruptcy, the company donated money to victims of an earthquake, to the surrounding county, to poor staff, and to poor university

students. It also donated in response to the governmental-led ‘One-Day Charity’ programme. However, with the company’s cash flow problems these philanthropic activities were all cut off except the annual funding for poor university students. As the manager noted, the company has been experiencing “*quite a difficult period*” and because of this is unable to donate large amounts of money anymore.

### **Motivations for CSR**

CSR is not practised on a voluntary basis. Instead, pressure from government is the main motivation. According to the manager, the government had two top priorities before 2015, which were safe production and a stable society. However, he stated that since 2015, environmental protection has been added as another top priority. He asserted that other social responsibilities are inferior to these three tasks. He explained that if the company does not abide by environmental protection rules, it would be temporarily shut down until it reaches the required standards. As for the welfare of employees, and issues such as working conditions and overtime pay, the company does not consider these to be as important as environmental protection due to poor enforcement. Because of the company’s circumstances and its lack of money and resources, the company only pays attention to the emergency tasks that the government prioritises.

Another motivation is the manager’s sense of responsibility that derives from concerns about the company’s reputation, and from social customs, and morality.

*“During these challenging times, why does our company keep donating to disadvantaged university students? On the one hand, we want to support them to finish their studies...students would appreciate our donation, which improves the company’s reputation. On the other hand, it costs much less than investment in our equipment or even several expensive dinners. Our company can afford such costs.” (Manager, Company D)*

### **Barriers to CSR**

One of the most significant barriers is limited financial resources. Although the company has gotten back on track since its reorganisation, it still has to repay millions

of RMB to its bank and other creditors. This is a crucial issue because until the company repays its debts, it cannot get access to any new bank loans.

*“We are on the banned list for getting credit, which means that we do not have any external financial resources. All profit should be used to pay back our creditors.”* (Manager, Company D)

Moreover, the manager reported that he believes that there is limited government support for SMEs.

*“If our company could get easy access to bank loans, we would not take measures like illegal public funding, which indirectly led to the failure of our business.”* (Manager, Company D)

The second difficulty is the uncertainty of government policy. The manager stated that he is not sure whether the company will be shut down by the government as part of its campaign to reduce excess production capacity.

*“The uncertainty brought by government policy restricts us from investing more to either upgrade our equipment or to donate to our community. If we are about to shut down, we cannot enjoy the reputational benefits of charity.”* (Manager, Company D)

Another barrier is the lack of CSR awareness and management skills among the management team. According to the manager, the company had no clear strategy before the bankruptcy and that the former management team made poor market choices which resulted in cash-flow problems. Since then, the former managers have been put into jail, and the new manager who was interviewed joined in 2016. However, the new manager also lacks CSR awareness. For instance, he reported that he does not regard overtime working as a problematic issue. On the contrary, he said that he is proud that he can reduce the cost of tyres by increasing employees' working time.

*“The reason why employees work here is due to the high wages. The more an employee makes, the more he gets paid. Employees have made money and supported their families.”*

*Meanwhile, the company benefits from their hard work...Employees appreciate getting their job positions. Without us, they have nowhere to work.” (Manager, Company D)*

### **5.3.3 Company E**

#### **Basic Information**

Company E is a textile factory that was founded in 2008. It has about 300 employees. The average age of employees is more than 45 years old, and the average wage is RMB 3000. Unlike most SMEs that follow a three-shift system, employees only work during the daytime in Company E. They work 6 days a week for 7 hours a day, apart from Saturday when they work half a day. The manager is the owner. He is more than 40 years old and has a high school degree. The business of Company E comprises selling facial towels, bath towels, bed linen, and wooden crafts. The company faces serious problems of wages and social insurance arrears, illegal construction without its EIA licence, and illegally discharging pollutants into groundwater. Company E was punished by both the local Environmental Protection Agency and the Human Resource and Social Security Bureau in 2017. Due to its frequent breaches of the Environmental Protection Law, the company had ceased production for eight months before the interview. Furthermore, the company was involved in labour arbitration and lawsuits relating to labour disputes and loan defaults in the same year. Its facial towel has also been reported for being of a substandard quality by the provincial Quality and Technology Supervision Bureau. Participants included the owner and three employees in this case.

#### **Understandings of CSR**

In the interview the owner showed a negative attitude to taking higher-level social responsibilities beyond meeting the needs of the government and helping to maintain social stability. He suggested that creating job opportunities and conforming to the law such as by paying taxes are sufficient for SMEs. He asserted that the basic social responsibility is to make money.

*“Offering job opportunities are required by the government to guarantee a stable society, and paying tax is required by the law...I have invested large amounts of money*

*in this company. Although it is my responsibility to provide positions, establishing the company is not for charity. Meeting the bottom line is enough. I need to make profits.”*  
(Owner, Company E)

### **Specific Actions and Levels of CSR**

**Economic Responsibility:** The owner preferred not to reveal the turnover and the profit of the company. However, from conversations with employees, it seems that the company had not made profits for more than three years prior to this study.

**Legal Responsibility:** Company E has payment arrears of half a year of wages and one year of social insurance. Also, it was sued more than twenty times in the previous year, including for violations of the Environmental Protection Law, for refusing to pay the resulting penalty, for breaching the Labour Protection Law, for wage, social insurance, and fine arrears, and for economic disputes like its loan disputes and labour contract disputes. The local EPB issued penalty decisions more than ten times in the year prior to the interview. The local HRSSB also issued more than five punishment notices in 2017. Moreover, according to the provincial Quality and Technology Supervision Bureau, one of Company E’s main products, its facial towel, was found to be substandard during a spot-check. However, unlike most SMEs who have problems with overtime working without providing extra pay, Company E pays either double or triple for overtime in accordance with the Labour Law.

**Ethical Responsibility:** Although the company has wage arrears of half a year, it still insists on giving extra welfare to employees during traditional Chinese festivals. In general, this includes a 10L bottle of cooking oil, 10kg of lotus root, or a 5kg bag of rice, which in total is worth less than RMB 100. The company also hires people who are disabled. Bur according to employees, the reason for this practice is so that the company can enjoy a tax rebate.

**Philanthropic Responsibility:** Company E donated 500 towels to southern China which suffered from heavy flooding in 2017. Also, the company donates one day’s income according to the ‘One-Day Charity’ activity every year.

### **Motivations for CSR**

The major driving force for Company E performing CSR is pressure from government, which means it does not pursue the activities on a voluntary basis. Under the pressure of potentially being forced to close down, the manager has invested RMB 10,000,000 to upgrade its environmental protection equipment. Also, due to pressure from the local government, Company E has paid three months of unpaid wages to employees. In fact, the company had not paid wages for 9 months before its employees protested to the local government. To avoid a mass incident, the government urged Company E to negotiate. Before the gathering, employees reported the issue to the local HRSSB several times, which issued a number of penalties and notices to the company for its failure to pay wages. However, Company E refused all these requests.

*“We did not have any other choice. We have families to support. The school asked us to pay tuition fees for our children, but we had nothing to pay. Thus, we decided to protest at the local government office.” (Employee B, Company E)*

With the involvement of the local government, Company E and employees reached a deal where the company agreed to pay three months of outstanding wages in full. For the other six months of wages and the social insurance, it was agreed that the company would pay these back later. That is, in July, the employees would get the wages they were due in January.

Another motivation is the pressure from social customs, which specifically refers to holiday welfare.

### **Barriers to CSR**

The main barrier relates to the owner and management team. In this company, the owner makes all major decisions. However, he is neither an expert in the textile industry or business management. Furthermore, the rest of the management team are not well educated and do not have a good grasp of management best practice. For example, the company lacks a clear and approachable enterprise development schedule, let alone a long-term plan. Finally, the owner has a negative attitude to CSR activities that go beyond the law.

*“The relationship between the owner and us is bad due to the wage arrears. He regards employees as tools to make money. And he is not interested in repairing the relationship.”*  
(Employee B, Company E)

Another barrier is the government’s unstable policy making. The company has experienced significant economic losses due to the changing requirements concerning environmental protection equipment. For instance, the government changed the policy regarding clean production twice within two years. Following two large investments in environmental protection and production equipment, amounting to RMB 10,000,000 and RMB 20,000,000 respectively, the company has experienced poor cash flow, which has caused the wage arrears.

Moreover, Company E has had difficulties in securing financing. Due to being deemed a high-risk borrower, banks are reluctant to grant loans to Company E. This has led the owner to borrow privately to pay wages.

*“What the government offers to large SOEs is different to what is offered to us. The allocation of financial resources gives top priority to them.”* (Owner, Company E)

### **5.3.4 Company F**

#### **Basic Information**

Company F is a flour mill, which was established in 2004. It has 61 employees. The average age of the employees is 41 and the average wage is RMB 4000. The working pattern follows the three-shift system. The company mainly engages in processing and selling wheat flour and wheat-related products, e.g., noodles and wheat germ. Company F has not been punished by any administrative bureaus and is not involved in any litigation. The reason why Company F is suitable for this research is due to its lack of higher-level social responsibility behaviours. The manager of Company F is also the owner. His highest educational achievement is a high school degree. He shows great interest in improving the management of his company. All the senior management team members are Muslims. I interviewed the owner and three employees from Company F.

## **Understandings of CSR**

During the interview the owner displayed a positive attitude towards operating his business in an ethical manner. He stated that he believes the basic social responsibility of his company is to help the government maintain social stability, which includes offering stable employment, paying wages and insurance on time, and paying taxes. Beyond these fundamental responsibilities, he reported that obeying the law and regulations such as the Environmental Protection Law and the Food Safety Law is also crucial to the company.

*“In China, maintaining a stable society is always the top priority task. If you do not pay wages on time and this triggers a mass incident, the government would put you on their blacklist. However, breaching the Food Safety Law will not result in you losing political resources or connections. This does not imply that complying with legal requirements is not important for our company. On the contrary, we always respect the law. What I am saying is that there would be different results for different laws and thus I rank laws in order of priority.” (Owner, Company F)*

## **Specific Actions and Levels of CSR**

**Economic Responsibility:** The business operations of Company F have so far progressed very well. Unlike many other SMEs, it has no debt or contractual disputes with its suppliers or its bank. It has continuously made a profit since its establishment. The annual operating income is approximately RMB 300,000,000. And the annual profit exceeds RMB 10,000,000. When the market is performing well, profit increases to around RMB 20,000,000.

**Legal Responsibility:** Company F has performed its legal responsibilities which has been enabled by its healthy financial condition.

**Ethical Responsibility:** As well as the provision of extra welfare during traditional Chinese festivals such providing as cash or commodities equivalent to RMB 200, free lunch is also given to employees. Employees reported that they are satisfied with the quality of the food since it is ordered from a famous nearby restaurant. If employees have difficulties in going home late at night, or they need to start work early in the



morning, there is a free dormitory with a TV and air conditioning.

**Philanthropic Responsibility:** Company F has made some small donations. However, some of their donations are actually “*compulsory*” political assignments, for instance, as part of the government-led ‘One-Day Charity’ activity. To achieve its donation targets, the head of the local government forces the company to take its “*philanthropic responsibility*”. Also, the company has donated a fixed amount of money to the local community.

### **Motivations for CSR**

As described above, CSR is not fully voluntary for Company F. Instead, the primary motive for taking social responsibility relates to institutional pressure from government and the community. Company F has received government support due to being part of the agricultural sector. In addition to concerns about being punished, the owner worries that the government might cease providing support to the company. Moreover, the company relies heavily on the community. On the one hand, most of its wheat and cereal grains are collected from the surrounding villages. On the other hand, most employees come from the same community as the owner. To protect his reputation, the owner of Company F would like to build environmental protection facilities and to treat employees well. Social customs and religious beliefs are other driving forces that encourage the owner to provide holiday welfare.

### **Barriers to CSR**

The first barrier is the limited management knowledge of the management team. Possessing a relatively limited educational background, the management team has no clear plan for the company. The owner wishes to expand the business but simply follows the same routine from year to year. Also, although he intends to add training programmes for employees, he lacks an accurate strategy to achieve this. Another difficulty is the lower level of government support provided to SMEs compared to that offered to SOEs.

### **Stakeholder Influence on CSR**

Influential stakeholders include the government and the community. The community

includes local residents, suppliers, and employees. It is hard to distinguish between suppliers and employees from the community given that they are all from the same neighbourhood. For suppliers who do not belong to the community, they have no influence on the company's CSR decisions; whereas for employees who are not from the neighbourhood area, they also enjoy the same influence on the company as locals. Customers have no influence on the company unless there are large quantities of negative reports.

### **5.3.5 Company G**

#### **Basic Information**

Company G is a paper mill, which was founded in 1988. It has approximately 600 employees. The average wage is RMB 3000. Most of the employees are more than 45 years old. The company's working pattern follows a three-shift system. The value of annual production value exceeds RMB 200,000,000. However, the manager preferred not to reveal the company's profitability. He was promoted to manager in 2012. Before the promotion, he was the production manager of the company's main workshop. The company's primary business is the production and sale of corrugated paper, corrugated cardboard, wrapping paper and napkins and paper recycling. The company was punished for not rectifying its behaviour based on an EIA document and the opinion of the local EPB. I interviewed the manager and 3 employees from this company.

#### **Understandings of CSR**

The manager believes that CSR principally implies offering employment and thus helping the government to maintain social stability. The manager reported this entails providing wages and social insurance to employees and that the stable jobs created by the company help to mitigate the risk of idle people causing trouble. He also said that job opportunities, wages and social insurance all depend on making profits. Therefore, the manager concluded that making a profit is the company's primary responsibility and conforming to legal requirements is the basis of its business operation.

*“China is a country with a large population and a huge land area. The government has put large amounts of money and effort into maintaining social stability. The company*

*should help to lighten the burden of the government.” (Manager, Company D)*

### **Specific Actions and Levels of CSR**

**Economic Responsibility:** Since its establishment, the owner has managed the business steadily. Company G has made large profits since environmental pollution has improved in China. The manager noted that since 2017, the Chinese government had shut down more than 300 paper mills due to their failure to meet the required environmental protection standards. As a result, Company G has benefited from increased market share and a sharp increase in orders.

**Legal Responsibility:** To meet the new environmental protection standards, Company G has invested RMB 200,000,000 in improving its environmental protection equipment. However, the company pays much less attention to the protection of workers’ rights. According to the interviews with employees, they are barely able to rest on weekends and holidays, there is no overtime pay and workers are expected to work 365 days a year.

**Ethical Responsibility:** Before traditional Chinese holidays, the enterprise provides additional welfare, such as a 5kg bag of rice, 5 kg of noodles, or a 10L bottle of peanut oil to all employees. Furthermore, there is a staff canteen which provides food for employees at a reasonable price but without subsidy. However, many of the employees stated that their opinions are not considered by the management team. Apart from the safety training required by the government, the company offers no professional training programmes for employees.

**Philanthropic Responsibility:** Company G has donated money, goods and materials to both the society and certain disaster areas. Additionally, the company has participated in the ‘One-Day Charity’ activity supported by the local government.

### **Motivations for CSR**

The main reason why the company performs CSR is due to government pressure. For example, the government has raised environmental protection standards. Therefore, this has forced the company to invest money to upgrade its equipment. The government also

pays great attention to workplace safety. As a result, the company holds information sessions regarding the production process and safety regulations every week. However, the protection of employees' rights is not as strictly enforced by the government as environmental protection and safety production. Thus, Company G's implementation of the Labour Law has been extremely poor. To reinforce its good relationship with government, the company has positively responded to the government's call for donations.

Social customs are another driving force of CSR, but this only applies to the material benefits provided during traditional festivals.

### **Barriers to CSR**

According to the manager, there is one main barrier to the development of the company's CSR activities, namely poor human resources. For example, the manager reported that well-educated students refuse to work for the company after completing internships. Indeed, Company G has problems retaining talent given its low wages and poor geographic position.

The second barrier is the low CSR awareness of the owner and the management team. Extant CSR measures are passive rather than active and the owner and managers show limited interest in CSR beyond the requirements of the government.

The third barrier is the lack of political resources and the relative lack of policies which support SMEs to take more social responsibility.

### **5.3.6 Company H**

#### **Basic Information**

Company H is a medium-sized enterprise that develops, produces and sells anti-counterfeiting labels. It has been established for more than twenty years. The labels include both the traditional label and the Radio Frequency Identification label that operates via wireless communication technology. The company has 400 employees, whose average age is 40 years old. The average wage is RMB 3000. However, senior

managers and engineers with high educational levels can earn up to RMB 10,000. Employees who work in the workshop follow the three-shift system. The company has been punished by the local EPB due to the lack of an EIA license. I interviewed the owner, the manager, and 2 employees from Company H.

### **Understandings of CSR**

The owner reported that he believes the major social responsibility of the company is to make money and that profit is the foundation of all other issues, like paying wages to maintain social stability (the most significant responsibility of the company), paying tax to the government, and developing the company's technology. He also said that CSR is crucial for any company that wishes to achieve continuing growth. He highlighted that operating in accordance with the law is another important aspect of CSR, including paying taxes and obeying environmental protection rules. He stated that showing respect to employees is the third layer of social responsibility. This includes providing good treatment and offering opportunities for growth. The owner contended that these are significant ways to retain talent and cultivate their sense of loyalty, which means that they are beneficial to the long-term development of the company. In addition, a company will only donate to charities when employees and the community are well-treated.

### **Specific Actions and Level of CSR**

**Economic Responsibility:** Company H has a positive economic condition. Specifically, it generates annual profits of around RMB 80,000,000. In 2017, it paid tax to the government of more than RMB 70,000,000.

**Legal Responsibility:** The company takes legal responsibility effectively. At the sample selection stage, the company was chosen due to the fact that it appeared on the list of companies penalised by the local EPB. However, according to the owner, its production without official approval has had no negative influence on local air or water quality and the reason why the company was punished was due to the reconstruction of a warehouse. Before the interview, the company had applied for a new EIA license and had been approved. The company's performance of environmental protection and labour protection is satisfactory. Wages and social insurance are paid without any default. In

general, the company prohibits employees from overtime working. If they want to work over-time, they need to submit an application. According to the interviews with the company's employees, if there are any emergency orders from customers which require longer hours than normal, they are paid well for the additional work time.

**Ethical Responsibility:** The company pays housing funds to employees. Besides, if employees have difficulties, e.g., a family member is ill or the family cannot afford their child's tuition fees, Company H has set up a charitable foundation to help them. Last year, the company helped 39 employees. Employees also enjoy three free meals a day with three dishes and one soup as standard. The company also distributes groceries and household items during every traditional Chinese festival. As a result, employees said that they barely need to go to the supermarket.

**Philanthropic Responsibility:** The company has donated more than RMB 500,000 to support the government's charity programme 'One-Day Charity' every year. Also, it has donated money to its surrounding communities and schools to support poor students.

### **Motivations for CSR**

Internal factors like personal beliefs and a sense of morality, and external factors like pressure from the government, employees, and the community, and the desire to protect the company's reputation have driven the owner to take more social responsibilities. To maintain sustainable development of the company, the owner has a strong will to implement CSR. On the one hand, it can help the company to retain talent; on the other hand, by enhancing its reputation it can help it to recruit new talent. Furthermore, obeying regulations is another foundation beyond profit-making for a company aiming to achieve sustainable development.

*"For a company that wishes to be stronger and live longer, lawful operation is extremely important. We should try to avoid being shut down by the government."*  
(Owner, Company H)

### **Barriers to CSR**

The only difficulty faced by the company is the relative lack of government support for SMEs. Although Company H has received more direct funding than other SMEs due to the fact that it is part of the high-tech industry, the extent of the support is still limited compared to that offered to SOEs, both in terms of the direct allocation of financial resources and preferential policies.

*“Although I have made a large profit every year, I have to reinvest to keep being profitable. Otherwise, the company will become outdated. If I had more financial resources, I could raise the wage level, give more material benefits to employees, and make larger donations to poor areas far away from the company.” (Owner, Company H)*

#### 5.4 Cross-case Data Analysis

##### 5.4.1 Current Understandings of CSR

**Table 7: Owner-managers’ Understandings of CSR**

Codes	Company C	Company D	Company E	Company F	Company G	Company H
Makes profits	√	√	√	√	√	√
Creates jobs	√	√	√	√	√	√
Obey the legal rules	√	√	√	√	√	√

Ensures social stability	√	√	√	√	√	√
Respects employees						√
Makes donations	√	√				√

In terms of understandings of CSR, owner-managers of Chinese SMEs hold the common opinion that CSR implies generating profits, creating jobs, conforming to legislation, and contributing to social stability. Only one owner stated that he considers employees' development as part of his company's social responsibility. Besides, although half of the owner-managers stated that they consider charitable giving to be a social responsibility, they also believe that philanthropic responsibility is a luxury for SMEs. It is only when an owner is successful in making significant profits or when they have met the needs of their proximate stakeholders that they donate to others.

#### **5.4.2 Current CSR Practices and Levels of CSR**

A notable issue that emerges from the results presented above concerns the fact that in the Chinese SME context Carroll's (1991) CSR pyramid is inverted and that it appears that companies do not follow the step-by-step procedure suggested by the pyramid. Specifically, economic responsibility and legal responsibility, which according to the pyramid should be companies' primary focus, are often performed unsatisfactorily by SMEs in China, whereas ethical responsibility and philanthropic responsibility are generally at least partially achieved. Furthermore, the results show that the companies in all six cases lacked an overall CSR strategy and that current CSR projects are



typically not part of the companies' long-term plans. Instead, one-off CSR activities and simply following government requirements as they arise characterise the CSR activities of Chinese SMEs.

In terms of economic responsibility, only half of the interviewed companies made profits and had been run well in the last five years. Before the interviews, Company E had ceased its operations for eight months, and it had not generated any profits for the previous three years. The other two companies had undergone bankruptcy in the preceding year. However, both had returned to profitability from the year this study's fieldwork was conducted.

Regarding the pyramid's second layer, only one company has taken full legal responsibility and has not received any penalties nor been involved in any lawsuits. In contrast, four of the companies have had serious problems, particularly in relation to overtime working. Two of the businesses have failed to pay wages and social insurance and four of them have been punished by the local EPB.

Contrary to their performance of economic responsibility and legal responsibility, all six companies have performed ethical and philanthropic responsibilities at least partially. Four of them provide lunch for employees at a low price. One company provides free lunch, and the other company provides a staff canteen. Furthermore, all the SMEs provide extra welfare to employees like oil, rice, or meat at the time of every traditional Chinese festival. Four of them have set up foundations for employees whose families are in need. However, only one of the six companies has professional training programmes for its employees. In terms of philanthropic responsibility, they all donate money to charity which is advocated by the government. Half the companies have donated to disaster areas, and half of them have supported the local community.

### 5.4.3 Motivations for CSR

**Table 8: Motivations for CSR**

	Economic responsibility	Legal Responsibility	Ethical Responsibility	Philanthropic responsibility

Company C	For the owner's own sake	Pressure from the government	Owner and manager's sense of morality; Influence of social customs	Reputation; Pressure from the government
Company D	For the owner's own sake	Pressure from the government	Owner and manager's sense of morality; Influence of social customs	Owner and manager's sense of morality; Reputation; Pressure from the government
Company E	For the owner's own sake	Pressure from the government	Influence of social customs	Pressure from the government and customers
Company F	For the owner's own sake	Pressure from the government and the community	Owner's sense of morality; Influence of social customs and the religious beliefs; Reputation; Pressure from the community	Pressure from the government and the community
Company G	For the owner's own sake	Pressure from the government	Influence of social customs	Reputation; Pressure from the government

Company H	For the owner's own sake	Pressure from the government and the owner's sense of morality	Influence of social customs; Pressure from employees and the community; Reputation; Owner's personal beliefs and the sense of morality	Owner's personal beliefs and the sense of morality; Pressure from the government and the community
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SMEs undertake CSR for both internal and external reasons, which accords with the extant literature. Internal factors include the owner's sense of morality and personal beliefs, while external drivers include pressure from salient stakeholders, social and cultural norms, and reputation.

Undoubtedly, in terms of economic responsibility, all six owner-managers voluntarily pursue this as they run their businesses. However, the completely opposite situation prevails in terms of the driving force for legal responsibility. Powerful stakeholders, i.e., the government in all six cases, and the community in one case, force SMEs to conform with laws and regulations. Most managers used the word "compulsory" when discussing their legal responsibilities. They reported that they feel threatened by laws that are strictly enforced since they worry that they will be seriously penalised or even put into jail.

Compared to economic responsibility and legal responsibility, drivers for ethical practices and donations are more complex. They include both internal and external driving forces. The owner-manager's personal beliefs and the sense of morality are more influential than in the field of legal responsibility, given that both ethical responsibility and philanthropic behaviours exceed legal requirements. Social and

cultural norms also have a significant influence on ethical behaviour. Despite their business conditions, all SMEs offer extra welfare to their employees on traditional holidays. In addition, it seems that the companies positively respond to the legitimate claims of their salient stakeholders to acquire more resources. On the other hand, these ethical behaviours enhance the reputation of the company. Companies that derive reputational benefits are more willing to invest in ethical practices and charities than those that do not. Nevertheless, according to the participants, philanthropic responsibility has to some extent become mandatory in the Chinese SME context. Although it is not regulated by legal provisions, the local government “suggests” that the companies donate money, amounting to no less than one day’s profit, to charity programmes each year. Such a hard suggestion forces companies to donate to poor areas.

#### 5.4.4 Barriers to CSR

**Table 9: Obstacles for CSR**

Company C	Lack of human resources; the uncertainty of government policy; less government support on financing; lack of CSR awareness
Company D	Lack of financial resources; the uncertainty of government policy; less government support on financing; lack of CSR awareness
Company E	Lack of financial resources; the uncertainty of government policy; less government support on financing; lack of CSR awareness and management knowledge

Company F	Lack of CSR knowledge and management skills; lack of political resources
Company G	Lack of human resources and political resources; lack of CSR awareness
Company H	Less government support on financing

Similar to the driving forces of CSR performance, the barriers and challenges that limit the implementation of CSR activities can also be divided into internal and external factors. Internal limitations are the same for all of the interviewed SMEs, and include lack of CSR awareness, management knowledge, human resources, and financial resources. Financial constraints are the major limitation among the above limitations. SMEs tend to be restricted by their profit-making abilities to reach higher CSR standards. Also, educational background is another major barrier as, neither SME owners nor managers tend to have been systematically educated in management schools. Instead, they are familiar with how to handle practical problems and how to make short-term plans, but they lack long-term strategies to manage their businesses. Moreover, SMEs are less attractive for professional managers as owners are always the most significant decision-makers. In these regards, the inefficiency of resource use often further aggravates scarce financial resources, and most CSR practices are the result of coercion from influential stakeholders rather than something that is implemented voluntarily in an attempt to achieve long-term sustainability.

In addition, among the six cases there is a broad consensus regarding external obstacles and in particular that the government plays a negative role in improving the CSR performance of SMEs. Firstly, all six owner-managers mentioned that they receive less government support for financing than large companies and SOEs. In comparison to SOEs and large companies, SMEs are viewed less favourably by banks and receive

limited direct financial help. Second, the frequent change of government policies or standards results in the waste of resources.

*“Take the emission of sulphur dioxide (SO<sub>2</sub>) and Nitrogen Oxide (NO<sub>x</sub>) as an example. For the newly built coal-fired boiler, the emission of SO<sub>2</sub> and NO<sub>x</sub> should both be under 300 mg/m<sup>3</sup>. If large companies or SOEs build a new boiler, they might raise the standard to 200 mg/m<sup>3</sup> or even 100 mg/m<sup>3</sup>. While for SMEs like us, we could only afford the cost of meeting the lowest standard at that time. Later, if the government raises such standards, those large companies or SOEs could neglect the improvement of the standard. Nevertheless, we must remove the old equipment and build new equipment.”*  
(Manager, Company C)

Managers also feel uncertain about the future of their companies. Whether the company will be shut down depends on changing government policies and the varying extent to which laws are enforced. Because of this, owners often choose to stop investing in their company, let alone implement CSR activities.

To sum up, lack of financial resources, human resources, political resources, CSR awareness and management knowledge, and the uncertainty of government policy are the major difficulties facing Chinese SMEs in terms of their CSR activities.

## **5.5 Summary of Findings**

This chapter has detailed the perceptions of Chinese SME owner-managers towards CSR. Through the thematic analysis of six individual cases, the peculiarities of Chinese SME CSR activities, their current CSR programmes, the driving forces for CSR, and the obstacles for CSR have been categorised and analysed.

The common understanding of SME CSR in China includes four main tasks: making profits, providing job opportunities, compliance with rules and legislation, and maintaining social stability. It is noticeable that all the participants stated that they regard maintaining social stability as the ultimate aim of social responsibility in China, for which the other three tasks provide solid foundations. This is one of the most distinctive features of Chinese CSR and contrasts with the understanding of CSR in all

other contexts.

Current CSR programmes in Chinese SMEs also exhibit another distinct characteristic from other contexts. In terms of ethical CSR practices and philanthropy, all the SMEs provide extra welfare during important traditional Chinese holidays and they donate at least one day's income each year to charity, even those with poor cash flow. Meanwhile, SMEs in China do not achieve full economic and legal responsibility. This situation inverts Carroll's (1991) pyramid. Besides, few SMEs have set up training programmes for their employees, neither professional skills training nor soft skills training, e.g., communication skills, presentation skills, and time management.

Therefore, given the above analysis a strong case can be made that managerial stakeholder theory is the most suitable framework to interpret the CSR practices of Chinese SMEs. The motivation for CSR primarily arises from the needs of influential stakeholders rather than from ethical corporate values and ideologies.

External factors i.e., pressure from influential stakeholders, social norms, and reputational concerns drive most CSR activities in the Chinese SME context. Due to the nature of their businesses, the pressure of globalisation is largely absent in the SME field. In addition, internal drivers, such as owners' personal beliefs and sense of morality, are determinants only for ethical CSR behaviours. There was also an absence of an ethical corporate culture in most of the interviewed cases, which directly contrasts with Yin's (2017) finding that corporate culture is the primary internal institutional driving force for CSR in China.

In terms of the barriers to CSR, owner-managers commonly believe that their current CSR programmes are constrained by limited financial resources and by the absence of highly professional managers. Compared to large companies and SOEs, there is also less support with financing from the government. Moreover, the lack of CSR awareness and management knowledge restricts the integration of CSR strategies into SMEs' long-term business plans. The frequent change of government policies further exacerbates this problem. Therefore, current CSR activities tend to be short-term and one-off.

## **Chapter 6: Findings II**

### **6.1 Introduction**

This chapter identifies how the MAW-1997 influences CSR decision-makers in the Chinese organisational field. Through the analysis of the interview data, it answers the second research question concerning who and what really counts in the Chinese SME organisational field. The key finding is that government is the most influential stakeholder for all SMEs, given its possession of the power attribute.

To begin with, this chapter presents the individual within-case analysis followed by the cross-case analysis of stakeholder influence. Then, the next four sections seek to refine the MAW-1997 based on its embeddedness in the Chinese SME context. These sections start by assessing the urgency attribute. Regardless of the importance and time sensitivity of a claim, the findings of this research support the argument of Driscoll and Starik (2004) that the most important factor that affects the probability of a claim coming into effect is whether SME owner-managers perceive the claim to be urgent or not. The research also finds that proximity is another important attribute in the stakeholder identification and salience model and that geographic and psychological nearness between stakeholders and the focal organisation are critical factors that influence CSR behavioural changes. The third section reveals that the moral legitimacy of a stakeholder's claim has a limited effect on the decision-making of owner-managers, and the fourth section shows that power is the most significant attribute in the Chinese SME context. Having revisited the MAW-1997 in light of Chinese contextual factors, the dynamism of the MAW-1997 is verified. On the one hand, the study produces results that differ from the MAW-1997 in other contexts; on the other hand, the flow of attributes influences the identification of stakeholder salience and the prioritisation of stakeholders' claims.

### **6.2 General Analysis of Stakeholder Influence on CSR**

#### **6.2.1 Within-case Analysis**

##### **Company C**



Government is the most influential stakeholder for Company C. The manager reported that he considers that government influence accounts for 60 to 70% of the company's CSR practices. Although the manager reported that he regards employees as the second most influential stakeholder, he also stated that employees seldom affect "big" decisions. This view was supported by employees themselves.

*"What we can change definitely only involves small costs. For example, we could get a chef who does not cook well replaced. However, if we want to start a training programme, that would be impossible." (Employee B, Company C)*

In addition, all the interviewed employees said that they know that they have the right to claim payment for overtime working. However, despite this knowledge no one was willing to either ask the manager for overtime pay or to report the fact that they are not paid for overtime to the local HRSSB. The first reason for this is that they believe that reporting the issue will not have any effect and that the HRSSB would either not punish the company, or the punishment would only be perfunctory. Second, employees have become used to working overtime and they believe that even if they leave Company C and go to another company, they would receive the same treatment.

The community is Company C's third most influential stakeholder, and the influence mainly arises from reputational pressure. A typical example is the company's decision to continue to provide free heating to the community even after the formal contract with the local government which required it to do this had expired. Competitors are not regarded as powerful stakeholders in terms of CSR. Indeed, the relationship between the company and its peers tends to be cooperative rather than competitive and they do such things as frequently exchanging professional engineers to learn from each other. The customer has no effect on the company's CSR decision-making since they do not place requirements on the company in this regard.

### **Company D**

Government is the most influential stakeholder and is responsible for bringing about around 90% of Company D's CSR practices. Apart from the government, customers and employees have little influence on CSR decisions. According to the manager,

employees do not have requirements other than higher wages. Although, as shown by their interviews, employees know they have the right to report overtime working without extra payment, they neither demand this from the manager nor have they reported it to the HRSSB.

*“Overtime working without extra wages is too common in China. You can find it in almost all companies. We have already gotten used to it.” (Employee B)*

*“Although we could report this situation to the government, we will earn nothing from doing that. Instead, we might just lose our jobs.” (Employee D)*

*“If I job-hop to another factory, the most probable thing is that I would receive the same treatment or even worse.” (Employee C)*

After its reorganisation, the company only serves its upstream customers in the supply chain. The only requirement from the company’s customers is to act in accordance with the law. However, such a requirement has failed to alter the company’s behaviour.

Competitors and the community have no influence on Company D, given that its main competitors are located in other cities. Most employees are from the neighbourhood, and they tend to wish to work near home, despite the fact that competitor companies pay RMB 1,000 more in wages and other benefits. Concerning the community, the company does not occupy the land resources of the nearby village. The production of tyres also does not produce air, water, or noise pollution. Hence, there is no CSR requirement from the community.

### **Company E**

Government is the most influential stakeholder for Company E. It significantly affects its legal responsibility and philanthropic responsibility. The second most salient stakeholder is the customer. In this case, the customer is not the general public who buy Company E’s products, but rather its customers are the supermarkets who sell its products. As such, its key goal is to increase its sales to supermarkets. Hence, when supermarkets asked the company to donate money to disaster areas, to avoid being

disqualified from their supply chain, the company positively responded to such requests. However, despite requiring periodic donations, there are no other requirements placed on the company, e.g., conforming to the law. The rest of its stakeholders, including employees, competitors and the community seldom affect Company E's CSR decisions.

### **Company F**

Influential stakeholders for Company F are the government and the community. Here, the community includes local residents, suppliers, and employees. It is hard to distinguish between suppliers and employees given that they are from the same community. Suppliers who do not belong to the community have no influence on the company's CSR decisions, but employees who are not from the neighbourhood do enjoy the same influence on the company as those who are. Customers have no influence on the company unless it receives a large quantity of negative reports.

### **Company G**

The most influential stakeholder for Company G is the government. Other stakeholders, like customers, employees, and the community, have little or even no influence on its CSR decisions. Based on what its employees reported in their interviews, their views have no importance. For instance, they reported that the only suggestion they have ever made to the management team is to allow them to take a short break during the working day or even to have one rest day each month. However, they reported that the company simply refused. Furthermore, they stated that the channels to report their views are limited and that employees can only give their views to their group leader. They said they do not know whether their views have ever been passed on to the production manager or the mid-level management team, let alone to senior managers or the owner. From the managers' statements, customers do not care whether the company is socially responsible or not, and only care about whether the company can provide its products at a reasonable price. The community is also irrelevant to the operation of the company's CSR. According to the manager, the community does not place any CSR requirements on Company G.

### **Company H**

Government is the most influential stakeholder for the company's CSR decisions, followed by its employees, the community, its customers, and finally its competitors. For employees who have patents, the manager regards them as valuable resources and carefully considers their opinions. The community does have some influence on the company's CSR decisions because employees mostly come from neighbouring villages. In terms of the company's reputation, the owner will consider legitimate claims made by the community and donates to the community in an effort to enhance the firm's reputation. The reason why competitors have some influence on the company's CSR decisions relates to the treatment of employees. To avoid losing valuable employees to competitors, the company pays higher wages and provides more welfare to keep its talent, especially to employees with higher educational backgrounds.

### 6.2.2 Cross-case Analysis

**Table 10: Stakeholder Influence on CSR**

Company C	Government, employees, the community
Company D	Government, the customer, employees
Company E	Government, the customer
Company F	Government, the community
Company G	Government
Company H	Government, employees, the community, the customer, the competitor

From the above analysis, it is clear that government plays the most significant role in the CSR activities of Chinese SMEs. All the owner-managers reported that they judge that the government is by far and away their most important CSR stakeholder and accounts for approximately 90% of their CSR activities in most of the cases. This finding echoes the notion of "state-led" CSR (Hofman et al., 2017; Situ et al., 2020). It seems that SMEs are threatened by the coercive power of government, and thus make significant investments in their legal responsibility and philanthropic responsibility. Although other stakeholders like the community, employees, and customers can to some extent affect CSR decisions, their impacts are far less than the government.

In terms of ranking stakeholder salience, government undoubtedly comes top. Next is the community, followed by employees, customers, and competitors. However, it is important to note that the customer is typically not the general public, but instead is usually other upstream and downstream companies.

### 6.3 Urgency

**Finding 1: Whether urgency is significant to the identification of salience order largely depends on the probability of the claim eventually happening.**

Interview results demonstrate that although urgency is not as inconsequential as Jones et al. (2007) and Neville et al. (2011) have argued, the original definition proposed by Mitchell et al. (Mitchell et al., 1997) ought to be amended to include the probability of the claim eventually occurring. As Mitchell et al. (1997, p. 867) suggested,

“urgency... exists only when two conditions are met: (1) time sensitivity - the degree to which managerial delay in attending to the claim or relationship is unacceptable to the stakeholder, and (2) criticality - the importance of the claim or the relationship to the stakeholder.”

It is the manager’s consideration of urgency that determines the result of salience. Such a judgement process involves the calculation of costs and returns (Driscoll and Starik, 2004). Hence, Driscoll and Starik (2004) stated that only when there is a high probability of it happening do managers perceive a critical claim to be salient. Examples of employee responsibility in Company G and Company D support this finding.

According to Article 41 of the Labour Law (Standing Committee of the National People’s Congress, 2018b), having consulted with its trade union and employees, employers can extend working hours, but by no longer than an hour a day, or by no more than three hours a day if the extension is due to certain special circumstances. However, the three-hour extension must take into consideration and guarantee the physical health of employees. Furthermore, the law states that extra hours must not exceed 36 per month. Additionally, according to Article 44 of the Labour Law (Standing Committee of the National People’s Congress, 2018b), if an employee is

asked to work on a rest day, the employer should pay no less than double the employee's regular wage when no additional days off are provided in recompense. If employees are asked to work during holidays, the payment should be no less than 300% of the employee's regular wages.

However, despite the law, employees of Company G work 364 days a year without any overtime pay. When employees of Company G attempted to claim overtime pay the company refused either to pay them or to provide time off in lieu. They therefore complained to the local HRSSB. In this regard, employees' claims can be seen to be critical and time-sensitive in nature, thereby attaining urgency. However, their claims did not successfully attract their manager's attention.

Employees reported that they believe that the owner of Company G has close personal relationships with local government officials and that because of this when the local HRSSB receives their complaints, officials are reluctant to seriously punish the company. However, it is difficult from what the employees allege to judge whether such personal relationships do affect their complaints or not. Therefore, interviews with officials were used in an attempt to verify their views from another perspective.

According to Staff Member A of the local HRSSB, he and his colleagues are subject to a performance evaluation system that pays more attention to economic development than social development and that this system determines the allocation of the bureau's financial and human resources. The staff member reported that the rate of economic development, including the per capita GDP growth, the profit growth rate of industrial enterprises, and the percentage of fixed asset investment etc., accounts for more than 40% of an official's performance assessment score. He also stated that in recent years environmental protection, including control of air and water pollution, urban afforestation, the concentration of PM (2.5), and the satisfaction of the public etc., has grown from 5% to 15% of the performance score. However, in contrast, the rate of employment, the social insurance premium rate, and the protection of employees, etc., account for less than 10%. Because of this he stated that the local HRSSB only devotes limited money and staff to supervise issues regarding labour protection and if there are

no complaints or reports from employees at a certain company, the local HRSSB is unlikely to notice that company.

*“There is only one labour supervision brigade in our bureau. Apart from the commander and the deputy commander of the brigade, there are only six staff. Two of the six will retire in the next year. Hence, you cannot expect four people to handle all labour-related problems in a district where there are more than two thousand enterprises. Two years ago, the local EPB went through almost the same experience as our department. However, since the establishment of the Measures in relation to strengthening environmental protection, they have recruited thirty staff to form two new brigades. The local government gives priority to environmental protection, and therefore has boosted the EPB’s budget and staff numbers. Furthermore, our department does not have coercive administrative power. We can only investigate and order corrections.” (Staff Member A, the local HRSSB)*

The interview with Staff Member A from the local town further demonstrates the role of the local HRSSB. According to Articles 90 and 91 of the Labour Law, when there is overtime working, the HRSSB can give warnings, order corrections, impose fines, and order the payment of compensation. However, in some circumstances, the local government might put pressure on the local HRSSB to reduce the actions it takes against companies out of consideration for economic development. Consequently, this might result in, for example, fines being downgraded to corrections or warnings. This is the reason why employees feel that even if they make a report to the local HRSSB, nothing will happen.

Moreover, the lack of enforcement power means the local HRSSB lacks similar coercive power as other institutions like the courts and the police. Consequently, owner-managers know that they will not be seriously punished for violating workers’ rights. Claims for failing to protect the right to rest or providing overtime pay bring no undesirable consequences like the closure of the company or the arrest of owners and managers. Therefore, due to the extra profits available from overtime working, managers typically ignore the requests of weak stakeholders like employees and make them work long hours with few if any rest days.

In addition to the example of Company G, the interviews with participants from Company D revealed certain other facts that affect the possibility of claims coming into existence. Like Company G's case, employees of Company D also work throughout the whole year without any extra pay above their normal wages. Both the manager and its employees know that the company is infringing employees' legitimate rights and interests. However, neither of the parties attempt to change the situation. From the manager's perspective, he knows that employees will not quit even if he fails to provide overtime pay and from the employees' perspective, they do not believe that they will be able to change the situation and might even risk being fired if they try.

Compared to other local manufacturing SMEs, salaries of employees at Company D are up to 50% higher. Although other tyre manufacturing companies in adjoining cities have higher remuneration, this does not exceed Company D's wages by more than RMB 1,000 and this amount is not sufficient to attract the company's employees to work further afield and forgo the advantages of living near their workplace.

Another fact is that the company uses two payslips to avoid being reported or supervised by the HRSSB. Creating fake payslips is a common phenomenon in most of the interviewed cases. Except Company C, the other five companies all adopt a piece-based wage plan. Compared to an hourly wage, such a plan allows managers to closely control the cost of production and labour. However, the piece rate is not specified in the labour contract of the companies which adopt this system. Moreover, some of the interviewed companies do not provide payslips. According to the interview with Employee B in Company H, most employees do not care about the detailed categorisations of salaries. As long as the total sum of their pay is reasonable, and there is no major difference with their colleagues, they do not ask for a payslip. The only exception is when there is a large gap between the money an employee should be paid and the time they have worked. In these circumstances, employees are likely to make a query to the HR department.

Fake payslips enable companies to be deceitful concerning working time and pay. When there is an inspection, companies cut the piece rate and basic salary to the lowest



local requirement and increase awards to meet the government's requirement for the overtime working allowance. However, despite the illegality of such actions, managers are not worried about being reported for not paying the overtime working allowance because the chance of being punished is extremely low.

For the above reasons, the low probability of claims coming into effect decreases the urgency of claims. Employees' legitimate claims attract no attention from owner-managers, even if their claims are important and time-sensitive. Hence, the results of this study strongly suggest that probability should be incorporated with the original definition of urgency.

#### **6.4 Proximity**

##### **Finding 2: Proximity is the fourth element of the MAW-1997.**

This study has found that proximity is another factor that affects the identification of stakeholder salience. According to Driscoll and Starik (2004, p. 61), proximity consists of, "the near and the far, the short- and the long-term, and the actual and the potential". They indicate that stakeholders who are near, short-term, and actual are more proximate to owner-managers, and thus are more salient (Driscoll and Starik, 2004; Neville et al., 2011). In the Chinese SME context, CSR activities are found to be heavily influenced by local embeddedness. Owner-managers of SMEs are particularly sensitive to geographic or regional issues. External stakeholders who are in close proximity to the firm, e.g., the local government and the community, are key stakeholders who affect CSR decision-making. In contrast, those who are a long physical distance away from the focal enterprise, who exert long-term effects, and who are potential stakeholders, tend to have less significant effects on CSR decisions. The below examples of the government, the community, and competitors, will demonstrate why proximity is a vital element of the MAW-1997.

Although both central government and local government are recognised as the most influential stakeholders for Chinese SMEs, compared to local government, there is a great distance between the central government and SMEs. Consequently, central government is less influential on the specific actions of SMEs. Given that in the Chinese

political setting, the central government focuses primarily on general policy making, local government, especially that at the district and town level, who are the governors of the specified area, have more direct interaction with firms. Indeed, town and district governments control direct resource allocation and manage all law enforcement agencies at the same administrative level. Thus, the local government is the stakeholder that brings most short-term impact to the focal organisation. In this regard, owner-managers consider local government as a more salient stakeholder rather than central government given the high geographic proximity (Courrent and Gundolf, 2009).

*“The central government might arrange an inspection team to visit our city once a year, but the local enforcement agencies have recruited grid members to monitor our behaviour every day.” (Manager, Company F)*

*“It is the local government that controls water, electricity, the approval of land resources, implementation of laws and regulations, and the right to allocate subsidies. This does not mean that the central government has no influence on us but it is far away from us.” (Manager, Company C)*

Another example which proves the relevance of proximity is the influence of the community. The community has been recognised as being one of the most significant stakeholders in the SME context (Spence et al., 2003; Perrini et al., 2007; Santos, 2011; Peter Lund-Thomsen et al., 2014; Park and Campbell, 2018), given that most SMEs are deeply rooted in their communities. Acting as a good citizen is an effective approach to maintaining a company’s reputation, and doing so helps to attract employees from the community. By contrast, the community has a limited relationship with enterprises that are not located in urban areas or whose owner-managers come from other places and lack local connections (Lepoutre and Heene, 2006).

In this study, Company F and Company H have donated resources, e.g., technical and monetary support, to the community since they recruit local employees and their owners were born in the local community. Their primary motivations are very different to the case of Company C which provides free heating to the community for instrumental reasons due to its long-term occupation of the community’s land resources. For

Company F and Company H, donations are made for reputational reasons rather than the utilitarian power of the community. Although companies whose owners who have established their businesses in areas far away from where they were born still have to hire employees from the adjacent community, e.g., Company E, it seems that they feel less reputational pressure to perform philanthropic responsibility. In this regard, the more social proximity between the organisation and the community, the more likely that a social exchange relationship exists (Lähdesmäki and Suutari, 2012).

*“Most employees are from the same town as me. If I donate money to the local town, for example, to establish a new school, children of employees will benefit from this. I could earn a good reputation as employees will appreciate what I have done.” (Owner, Company H)*

*“The community has nothing to do with us. I did not grow up in this town. Even if I do not donate to the local town, the locals won’t blame me for this.” (Owner, Company E)*

Other than philanthropic responsibility, communities that have close ties with enterprises also motivate them to perform legal responsibility and ethical responsibility. Indeed, proximity allows the community to affect CSR decisions through its coercive power and normative power, and allows it to add urgency to the claim. Interviews with the owner-managers of Company F and Company H demonstrated this phenomenon in the same way.

*“I am from the local town. People who live in the community are my relatives. If I pollute water resources or the air, all my family would be condemned. On the contrary, if I treat my employees well, my family will earn a good reputation.” (Owner, Company H)*

*“If my company pollutes the neighbourhood, I would be criticised by people in my hometown. It is fair to say that these people could even ruin our equipment and make trouble. However, if I provide good treatment for employees and donate to the community, my family and I will enjoy an enhanced reputation. Also, the company will avoid trouble.” (Owner, Company F)*

Likewise, the reason why the other tyre factories have no influence on how Company D treats its employees is due to their geographic distance. Indeed, wages and other welfare tend to be the same throughout the city where Company D is located. Some smaller factories actually provide lower wages. Therefore, even when tyre factories in the neighbouring city offer RMB 1,000 more per month with an additional transport allowance, the manager of Company D neither increases wages nor adds extra welfare since the other city is located 150km away. When asked the question, “what would you do if a factory in this city increases its wages?”, the manager of Company D responded that he would increase his employees’ wages by the same amount as that factory or provide more allowances. Therefore, it can be seen that long distance competitors are weak stakeholders for Company D, and that the urgency of their claim is rather limited. In contrast, proximate competitors can actually exert an influence on Company D. Thus, when employees make a request for higher wages due to the influence of a proximate competitor, the urgency of the claim correspondingly increases.

*“As you may know, our factory ceased operations for half a year. During that period, some of my colleagues went to tyre factories in other cities to make a living. However, when our factory reopened, all of them came back, even though they could earn more in those other factories. If we have a choice, we will always work in the local area because our families are here. In particular, it is important that children should not change schools that often.” (Employee B, Company D)*

Given these points, proximity is another important attribute alongside power, legitimacy, and urgency. Specifically, it affects owner-managers’ CSR decisions when stakeholders are close by the focal enterprise. For stakeholders who are far from the company, owner-managers do not regard them as being salient even when they possess power and legitimacy.

## **6.5 Moral Legitimacy**

**Finding 3: Moral legitimacy is less significant for the prioritisation of stakeholder’s claims.**

This study follows the definition of legitimacy proposed by Neville et al. (2011) which confines legitimacy to the moral sense, given that pragmatic legitimacy overlaps with the consideration of utilitarian power and cognitive legitimacy lacks a clear judgement rule for owner-managers to assess a claim. Therefore, Neville et al. (2011, p. 369) define the moral legitimacy of a stakeholder's claim as, "an assessment by managers of the degree to which a claim exceeds a threshold of desirability or appropriateness within some personally, organizationally, and socially constructed system of ethical norms, values, beliefs and definitions". However, they have further suggested a measurement to assess the degree of moral legitimacy, which they term "moral intensity". Following Jones (1991), they have interpreted moral intensity to be, "the magnitude of consequences, probability of effect, concentration of effect, temporal immediacy, proximity, and social consensus" (Neville et al., 2011, p. 368). Taking this into consideration, it is obvious that the probability of effect and temporal immediacy overlap with urgency, and that they subsume proximity into the evaluation of legitimacy. As this study has isolated proximity as a separate relevant attribute and treats urgency as an individual attribute, moral intensity should thus be limited to the magnitude of consequences, concentration of effect, and social consensus.

Moreover, this study agrees with the proposition that legitimacy is the basis of the identification of stakeholders but is less significant in the prioritisation of different stakeholders' claims (Bussy and Kelly, 2010; J. Chen et al., 2018). The interview results demonstrate that moral legitimacy is positively related to stakeholder salience for comparisons between the same stakeholder, excluding government. For instance, when there are two claims from employees which come to the owner-manager at the same time, owner-managers of SMEs will prioritise the claim that poses a higher risk and has more serious consequences. However, if the two claims come from employees and the community respectively, owner-managers will give more consideration to the power and proximity of the two stakeholders and compare the urgency of the two claims. In addition, a claim from government overrides all other stakeholders' claims, given the power attribute. Even if there are two claims from local government, it is the urgency of the claims that determines resource allocation. Moral legitimacy has limited influence on the prioritisation of claims, and thus less influence on CSR decisions.

*“Employees have requested air conditioners in their dormitories. I understand that hot temperatures and the consequent disrupted sleep may result in lower efficiency in their daily work. However, we have to pay their wage arrears before satisfying their other needs.” (Manager, Company D)*

## **6.6 Power**

**Finding 4: Power is the most decisive attribute that overrides all other attributes.**

**Finding 5: Coercive power and utilitarian power are critical factors for the CSR decision making of Chinese SMEs.**

Power illustrates how a stakeholder imposes its will on a firm through coercive, utilitarian, or normative means (Mitchell et al., 1997). Following the argument of Parent and Deephouse (2007), this study also finds that power is the most salient attribute. When two stakeholders both possess the same attributes, the key determinant which affects owner-managers’ CSR decisions is the extent of a stakeholder’s power.

### **6.6.1 Coercive Power**

According to Mitchell et al. (1997), coercive power refers to a physical force that enables one to persuade others to act in a particular way. Such physical force is closely connected to punishment, violence, prison, or military force, and is used to sanction unlawful behaviours (Parent and Deephouse, 2007; Zhuang et al., 2010; Harness et al., 2018).

Take Company E as an example. According to Employee B of Company E, 99% of employees ride electric bicycles or normal bicycles to commute to work. However, the bike shed at Company E is extremely poor. It was designed twelve years ago, and has decayed significantly. Moreover, with more employees working at the company, its capacity is no longer sufficient. Employees who arrive late must search for different places to leave their bikes to keep them out of the wind and rain instead of putting them in the shed. Under such circumstances, employees have repeatedly suggested that managers should build a new shed. Nevertheless, the response has always been no. Managers have replied that there is not an adequate budget or sufficient space to

construct a new shed. They argue that the layout of the factory area is fixed and it is hard to arrange a new functional zone within the factory.

However, it is important to note that, as the local EPB required, Company E invested RMB 7,000,000 to build a new wastewater treatment plant in 2017. The company combined two warehouses into one so as to leave room for the new sewage system. The managers argued that the company would be shut down if it did not construct the sewage treatment plant. Therefore, it can be seen that in this case, employees' complaints were less crucial than the pressure from the government, given that employees could bring few utilitarian benefits to the company, but the local EPB has strong coercive power. Even though both claims were legitimate and urgent, and both stakeholders and Company E are in close proximity, the owner prioritised the request of the local EPB. Furthermore, in this case, although the local government's claim that Company E has polluted water resources is more legitimately salient than the employees' claim that the inadequacy of the bike shed has caused them inconvenience, it is still the difference of power that causes the different outcomes to the claims. Although the claim of the employees had existed for years without success, and Company E had continuously operated without qualified sewage disposal facilities prior to 2017, it was only when the '*Measures for Coordination Work between Administrative Law Enforcement and Criminal Justice in Environmental Protection*' (The Ministry of Environmental Protection et al., 2017) were published which granted the local EPB coercive power did the owner make the decision.

The above case of prioritising the claims of government departments is not unique in this multiple case study. Drawing on the interviews with all of the owner-managers, legal responsibility is mostly driven by coercive isomorphism. All owner-managers of Chinese SMEs are afraid of government agencies that possess the power of violence. Thus, they are primarily forced by coercive power to do things such as build equipment for environmental protection purposes.

### **6.6.2 Utilitarian Power**

Mitchell et al. (1997, p. 865) stated that the way a stakeholder exercises utilitarian power over a company is through influencing its access to "material or financial

resources”. These resources include financial resources, political resources, and human resources that can be transformed into “material rewards” (Etzioni, 1964, p. 59).

### **6.6.2.1 Financial Resources**

To reduce the possibility of being put at financial risk, organisations, especially those who are under significant financial pressure, will positively respond to a stakeholder’s requirements. The higher the degree of dependency, the more likely it is that a firm’s strategies will be affected by the resource owner (Salancik and Pfeffer, 1974; Mohammed et al., 2017).

For example, the reason why Company E donated face cloths and bath towels to a disaster area is because it was required to do so by its stakeholders. Generally, it is impossible for a company that faces a cash flow problem to take philanthropic responsibility. However, because Company E has stakeholders who possess utilitarian power, in this case the supermarkets who sell its products, and it was desperate for their income, when they made the demand that it make a donation, Company E had no choice but to comply.

*“Our company has encountered a considerable challenge in the retail sector. Compared to tinpot workshops, although our products are of higher quality than theirs, they have a much lower price. Individual customers do not have the ability to differentiate details, so they simply choose products at a lower price. The current circumstance is that towels are piling up in the warehouse, and we have no income to pay off debts and employees’ wages. When the supermarket comes to us, excluding exceedingly unreasonable demands, I have to accept what they want to survive. Debts, wages, employees’ insurance, improvement of the environmental protection equipment, maintenance costs of the production machine, all these operating expenses depend on sales. Without sales, it would be pointless to keep running this business.” (Owner, Company E)*

Thus, it can be seen that SMEs with financial difficulties are highly dependent on stakeholders who can provide lifesaving resources. Stakeholders with rich financial



resources are thus considered as salient by owner-managers, which thereby forces SMEs to meet the legitimate claims of stakeholders.

### **6.6.2.2 Political Resources**

Similar to financial resources, stakeholders who have access to political resources are also regarded as salient. As mentioned in the last chapter, many of the participants stated that they believe that the lack of political resources is one of the main barriers to SME CSR. According to Bonardi (2011), the possession of political resources allows companies to engage in the policy-making process, contend with rivals of other interest groups and to affect public decisions. Many empirical studies have tested the extent to which “political capital” or “political resources” are a crucial factor that impact corporate performance, especially in transitional countries (Frynas et al., 2006, p. 324). Political connections allow enterprises to obtain reputational benefits and to access financial resources, e.g., government-related programmes, relaxed credit conditions, and government subsidies (Frynas et al., 2006; He et al., 2020).

China is a typical country undergoing an economic transition, where government still exercises significant control in the domestic market (E. Lee et al., 2017; Kao et al., 2018; He et al., 2020). For this reason, in China, one of the key requirements to successfully run a business is keeping positive relationships with government (Peng, 2000). Government is thus regarded as the stakeholder which has the richest political resources. Moreover, when the economic situation and the market environment changes frequently, regulations and policies have to adapt when needed. Consequently, companies can enjoy great advantages if they are involved in the decision-making or rule-making process (Liu et al., 2019).

In China, one of the most popular channels for business owners to get access to political resources is to become a deputy in the National People's Congress (NPC) or a member of the Chinese People's Political Consultative Conference (CPPCC) (Conyon et al., 2015). China's unique political system allows NPC deputies and CPPCC members to participate in decision-making and law-making procedures and to a lesser extent to influence implementation (Liu, 2013).

Take Company E as an example. The owner of Company E has long defaulted on wages and social insurance payments and ignored the warnings issued by the local HRSSB. However, due to his recent motivation to become a local NPC representative, so that he can acquire more political resources, he has fully repaid overdue wages to his employees and made the social insurance payments to the local HRSSB according to the request of the bureau. This is because to be successful in joining the NPC, and to pass the qualification review process, a company should not be involved in any illegal affairs. Furthermore, the head of the local HRSSB is one of the members of the committee who reviews whether applicants are qualified. Thus, the owner of Company E was forced by utilitarian power to perform legal responsibility.

Moreover, to get better access to political resources, SMEs are forced to engage in corporate philanthropy. As mentioned in the last chapter, all six companies have participated in the government-initiated ‘One-Day Charity’, regardless of their financial health. The owner of Company F expressed his deep frustration with the motivation for taking philanthropic responsibility. He stated that something that is supposed to be voluntary has become a mandatory political task and that securing donations has become a tool for local government officials to gain promotion by impressing higher level officials. On the other hand, organisations wish to receive reciprocal benefits from the local government.

*“I am pleased to donate money to the disaster area or those who are in miserable situations. However, I am forced to donate a fixed amount of money in a fixed period”.*  
(Company F, the flour mill manager)

The ‘One-Day Charity’ emerged in China at the end of the 1990s (Sui, 2007). It has different names in different provinces. The core purpose of this activity is to alleviate poverty and to help people who are in tough situations (Sui, 2007). According to participants, this charity event has become the most popular manifestation of philanthropy in China. The activity suggests that every year, every organisation voluntarily donates one day’s profit, and that every person also donates one day’s salary to local charities. However, the event has not been independently initiated by charities.

Instead, the government formulated the policy and has made the supposedly voluntary activity into a mandatory administrative task.

In line with the request of the government, all six interviewed companies donate a certain amount of money to the local charity once or twice a year. Compared to the legal responsibility cases described previously, the claim for mandatory donations can be regarded as being irrational rather than legitimate. This claim also lacks urgency and is not time-sensitive since the aim of the charity is not to tackle emergencies. Nevertheless, to build reciprocal relationships with the government, companies are strategically motivated to invest in this philanthropic project (Li et al., 2015) and the cost of the donation is lower than the future political benefits that participating in the activity will bring. Although the political connections it helps to create do not guarantee winning possible government contracts or avoiding punishment for illegal behaviours, SMEs comply because they lack political resources and are therefore very keen to cultivate them. Therefore, it is clear that regardless of whether a claim is legitimate or urgent, the inferior relationships between SMEs and local government force SMEs to satisfy the needs of government.

### **6.6.2.3 Human Resources**

Although not as vital as financial resources to the survival of a business, human resources are of great significance to the ongoing development of SME CSR. According to the interview with the manager of Company C, most SMEs are of limited attraction to highly educated people and experts. In contrast to large companies, there are fewer incentives for professional managers or skilled specialists to work for SMEs. Even if a company cultivates its talent, retention is another difficulty. The lack of an ideal training platform, the frequent lack of clear aims for both the company and its employees, and low payment and poor benefits are reasons why most Chinese SMEs in the secondary sector of the economy are deficient in human resources. In this vein, stakeholders who can relieve the scarcity of human resources will be regarded as salient.

Take employee training programmes as an example. According to the interviews, it is a common phenomenon that middle managers participate in training sessions every year. However, apart from Company H, none of the other companies spend considerable

effort in training their staff. Aside from basic training like safety training, which is firmly regulated by the government, professional development is neglected.

*“As far as I am aware, there is not any special training in our company for junior staff. There might be management courses for mid-level managers. For us, the only training course is safety training, which is regulated by the departments of work safety supervision and administration. The supervision corps randomly check our memorisation of safety rules when they come to the company each month.” (Employee A, Company G)*

For most SMEs, the directors of departments are more valuable than junior staff. They are usually senior experienced staff who have worked for the company for many years. Generally, owners carefully consider their opinions at least to some extent. Compared to the management team, junior staff have little influence on owner-managers since they are easily replaceable. According to interviews with employees of Company G, almost all of the employees who work in the company’s workshops are local peasants. Some of the employees are illiterate and can only write their names. This allows the manager to easily recruit new staff and substitute old staff.

However, working in a high-tech manufacturing company such as Company H requires most of the employees to be well educated. They possess intangible resources that make them valuable. As a result, the manager of Company H pays much more attention to employees to ensure skilled employees do not leave. The management team regularly gives employees incentives to stay such as providing a wide range of household products to all its employees every month, including toilet roll, towels, soap, and domestic medical equipment. Furthermore, two tailored suits are prepared for every member of staff each year. These fringe benefits highlight a contrast between Company H and the other interviewed enterprises. Moreover, it is the only enterprise that sets an annual budget for junior staff training. The manager told me that there are a variety of training programmes every month. Training involves not only professional skills training, like computer classes and product quality management training, but also, personal development training, such as foreign language classes and human relations

workshops. To retain valuable employees, Company H has met their claims to establish a staff club and sports fields for their entertainment.

*“Our company set up an entertainment centre according to our opinion two years ago. There are table tennis tables, indoor basketball courts and badminton courts. We can enjoy using these after lunch or work.” (Employee A, Company H)*

The varying ways different companies treat employees demonstrates a power imbalance. For SMEs that lack human resources, the management team are more valuable than junior staff and are thus relatively irreplaceable. Most labour-intensive manufacturing companies require a lower educational background when recruiting employees for their workshops. Thus, it is to some extent simple for managers to hire new staff instead of increasing costs to meet the demands of existing employees. Nevertheless, the cost of hiring senior directors is relatively prohibitive. To retain senior managers, managers of SMEs will try to satisfy the needs of middle management to the greatest possible extent. While for a high-tech manufacturing enterprise, both the management team and employees receive extensive training. This is because the more knowledgeable employees are, the more value they can create for the company. The manager of Company H has also proposed a training reward mechanism, where staff who gain new certifications of professional skills will be awarded between RMB 10,000 and RMB 50,000.

*“Various training classes give me the opportunity to improve myself. I have not learnt any professional skills since I graduated from college, given that there is less time to devote to study. Those training classes enable me to gain both knowledge and awards. Some of my colleagues have learnt useful skills and transferred to relatively easier positions like the sales department or the administration office. For example, if one is proficient in English, he could work in the foreign trade department rather than working in the workshop. Even if there are no suitable positions, acquiring knowledge is still beneficial. I will stay at the company and try to learn more unless there is an offer I cannot refuse.” (Employee B, Company H)*

*“This is the seventh year I have worked for this company. Training classes are instrumental, as they enable me to apply my knowledge to real problems. Since there are challenges in our daily operations, I can figure out solutions with the skills I learn from those classes. In addition, a staff member who was working in the same workshop as me was awarded 50,000 Yuan last year. Through successfully applying his knowledge to practice, he has achieved a patent for an invention and has been promoted to the research centre.” (Employee A, Company H)*

Higher ethical responsibility and employees’ power contribute to a virtuous circle in Company H. The more ethical responsibility Company H has taken, the more value staff can create. Company H benefits from its human resources and employees benefit from the knowledge they acquire during training, which both promote the healthy development of Company H.

Professional managers and staff are valuable to an organisation. To successfully retain them requires that owners satisfy their legitimate claims, which thereby enhances the protection of employees’ rights and improves the standard of welfare.

### **6.6.3 Normative Power**

**Finding 6: Normative power is essential to the identification of stakeholder salience but is less significant than coercive power and utilitarian power.**

Stakeholders who have normative power are those who influence CSR decisions through normative symbols, i.e., “prestige and esteem”, and social symbols, i.e., “love and acceptance” (Etzioni, 1964; Mitchell et al., 1997, 2011, p. 242). In contrast to physical coercion and financial incentives, it is moral persuasiveness that results in CSR behavioural changes (Saxton et al., 2020). This study finds little evidence that normative symbols affect the CSR decisions of Chinese SMEs (Etzioni, 1964; Mitchell et al., 1997). According to participants, owner-managers would not devise a CSR strategy due to a prestigious or reputable stakeholder. Nevertheless, the influence of social and cultural norms that underlies their acceptance is evident in the adoption of CSR practices.

Social and cultural norms refer to, “rules or expectations of behaviour and thoughts based on shared beliefs within a specific cultural or social group” (National Academies of Sciences et al., 2018, p. 1). The provision of certain benefits before traditional festivals is a typical example of how cultural norms affect the CSR strategies of Chinese SMEs. Indeed, all six SMEs routinely give additional material benefits on traditional Chinese holidays, e.g., the Chinese Spring Festival, the Qingming Festival, and the Mid-Autumn Festival, no matter what financial condition the company is in. The only difference is the amount of benefit given. SMEs with positive cash flow give heavier bags of rice, larger bottles of cooking oil, or bigger packs of mooncakes, whereas SMEs experiencing less positive financial performance, offer less benefits, typically worth less than or equivalent to RMB 100. The cultural coercive isomorphism in the context of Chinese traditional customs give employees normative power and thus forces SMEs to perform ethical responsibility.

Another example concerns how social norms empower employees to change CSR behaviours. Specifically, according to participants, there is an accepted rule that organisations should provide lunch for employees. The interviews revealed that the companies subsidise meals differently according to their varying levels of financial health. For example, Company F and Company H offer free meals to employees. While others like Company C, Company D, Company E, and Company G pay a monthly allowance, normally RMB 5 a day, to employees. According to the interviews with employees, if they are unsatisfied with either the quality or the quantity of the meal, their complaints would be addressed within a short period.

*“Speaking of the canteen in my company, I am pleased with the management team. Dishes are provided at a lower price than the usual price. If the meat and vegetables are not fresh or are not of an acceptable quality, or many of us consider the dishes are not tasty enough, we would complain to the internal management department. They respond to us quickly after investigating the kitchen. I have to praise their efficiency in this aspect.” (Employee B, Company D)*

In addition to employees, this research also found that the community can influence CSR performance through normative power. Conformity with regulations and social

norms increase the companies' corporate reputations within the communities where they are located. Owner-managers who grew up in the community are afraid of the disapproval of residents from the same kinship network. To maintain and improve the reputation of both the owner-manager and the company, SMEs therefore positively respond to the legitimate requirements of the community. Higher-level responsibilities are also guaranteed by the normative power of the community, such as making donations to local schools. The examples relating to Company H provided in the proximity section demonstrate the influence of normative power.

Moreover, when social norms intertwine with religious factors, they simultaneously affect owner-managers' decision-making processes. As noted in the last chapter, the owner of Company F is a Muslim. According to him, his religion prohibits him from illegal operations and breaching any contracts. The head of the community, who is also the head of the clan, together with Islam, significantly influences the way the owner of Company F acts.

Nevertheless, in the same vein as proximity, owner-managers who are not from the neighbouring community to a large extent disregard social norms. The effectiveness of social norms within the community is weakened by increased distance between the owner and the community. Similarly, according to the owner of Company E, only customers in the same district would be aware of the reputation of the company. For companies which sell products in other provinces and cities, customers seldom know much about these small SME brands. If the quality is sufficient and the cost is low, they will not refuse to buy their products. Hence, the closer the distance between the owner and the stakeholder, the higher the probability that stakeholders with normative power can influence CSR decisions.

Moreover, the cost of taking ethical responsibility activities such as providing holiday welfare or free lunches, and the cost of donations are much less than successfully performing legal responsibility. Deciding not to construct waste disposal equipment like a sewage system or air pollution prevention equipment is an effective way of reducing costs for many manufacturing SMEs. According to the interviews, the primary motive for CSR is always the requirement of government and the fear of coercive power.



Furthermore, the scarcity of utilitarian resources is more important than normative power in the identification of a company's most salient stakeholders.

### **6.7 Dynamic Nature of the MAW-1997**

The MAW-1997 has also demonstrated its dynamic characteristics in the Chinese organisational field. Given different managers' perceptions and the embedded institutional context, some of this study's findings indicate the same features as those of Mitchell et al. (1997) and subsequent studies (Neville and Menguc, 2006; Parent and Deephouse, 2007; Neville et al., 2011), whereas some of the findings partially contradict the characteristics identified in other contexts. For instance, although power has also been identified as the most salient attribute, this study departs slightly from Parent and Deephouse (2007) who argued that the efficiency of power ranks in the following order: utilitarian power, normative power and then coercive power. In this study, the results suggest that coercive power comes top, followed by utilitarian power and then normative power. On the other hand, the varieties of attributes increase and decrease stakeholders' salience, which results in different methods of CSR adoption.

**Finding 7: In general, the accumulation of attributes makes stakeholders more salient.**

Stakeholders can increase their salience by adding more attributes (Parent and Deephouse, 2007). The more attributes a stakeholder possesses, the more likely an owner-manager will be to meet their requirements. Take environmental protection as an example. All owner-managers consider the local EPB as the most influential stakeholder in promoting environmental protection due to its possession of all four attributes. In relation to the power attribute, on January 25th 2017 the Ministry of Environmental Protection, the Ministry of Public Security, and the Supreme People's Procuratorate jointly issued the '*Measures for Coordination Work between Administrative Law Enforcement and Criminal Justice in Environmental Protection*' to protect the environment. The establishment of these Measures successfully connected the Criminal Law with the Environmental Protection Law and granted coercive power to the environmental administrative departments for the first time. According to Staff Member A of the local EPB, punishment notices were routinely ignored by companies

before the Measures were published. However, since then, under the pressure of being sent to jail, owner-managers now pay great attention to both fines and orders to implement corrections.

Correction orders relate to issues such as EIA licence renewal, closing off sources of pollution, or the reconstruction of sewage treatment plants or pollution control systems based on the latest standards regulated by the Environmental Protection Law and related government policies. Accordingly, these punishment decisions are legitimate claims to enterprises.

Moreover, there are deadlines for punishment notices, which are time sensitive. If improvements are not made according to the orders within the time limits, this will result in more severe punishments such as shutting down the factory or detaining the owner for 5 to 15 days (The Ministry of Environmental Protection et al., 2017). In fact, there were related punishment rules before the ‘*Measures for Coordination Work between Administrative Law Enforcement and Criminal Justice in Environmental Protection*’ were introduced. The difference is that previously owner-managers did not believe that the claims of the local EPB would come into effect, given lax enforcement. As a result, they felt able to ignore such claims. However, the publication of the new Measures has changed the attitude of local government towards environmental protection. Additionally, the local EPB is the government department that directly supervises and evaluates environmental protection behaviours and is therefore the closest law enforcement agency for environmental protection to the focal organisations. In this regard, it holds power, legitimacy, urgency, and proximity, and this explains why companies invest so heavily in their pollution control systems even when they face restricted financial resources.

*“The only reason why my company invests so much in desulfurization technology is because of the government’s requirement. The Chinese government began to implement rigorous environmental protection rules in 2017. For companies that do not upgrade the flue-gas desulfurization process, their managers will be fined and put into jail. Managers like me cannot take such a risk. It is common sense that the direct emission*

*of SO<sub>2</sub> brings noxious effects like acid rain. But for a small enterprise, investing RMB 5,000,000 in a new project means making more profit. By contrast, the investment in a piece of environmental protection equipment earns the company nothing. Thus, without heavy coercive pressure, few SMEs would voluntarily take such social responsibility.”*  
(Manager, Company C)

As another example, take the health checks of employees who are easily affected by occupational diseases. Employees of most manufacturing businesses suffer the effects of noise and dust, which may cause potential hearing impairment and pneumoconiosis. According to Article 54 of the Labour Law (Standing Committee of the National People’s Congress, 2018b), Article 35 of the Prevention and Control of Occupational Diseases Law (Standing Committee of the National People’s Congress, 2018c), and Article 8, Article 13, and Article 27 of the Measures for the Supervision and Administration of Employers' Occupational Health Surveillance (State Administration of Work Safety, 2012), organisations ought to offer free regular health checks for employees who are exposed to occupational disease hazards. If the company fails to conform with these rules, the business should be fined between RMB 50,000 and RMB 100,000.

However, according to participants, many companies do not strictly comply with the above rules, due to the leeway provided by the lack of definition for the term “regular”. Indeed, neither the Labour Law, the Prevention and Control of Occupational Diseases Law, nor the Measures explicitly stipulate the gap between one health check and the next. Also, even when the local Public Health Bureau (PHB) suggests to an SME that it should provide employees with regular health checks during one of its routine inspections, owner-managers can refuse such a request, whereas in terms of the claim for pre-employment health checks, all SMEs would instantly respond positively to this requirement. The reason for this is because based on Article 75 of the Prevention and Control of Occupational Diseases Law (Standing Committee of the National People’s Congress, 2018c), if pre-employment health checks are not conducted, the company will be fined between RMB 50,000 and RMB 300,000. If the company fails to respond to the warning given by the local law enforcement agency, the company would be ordered to cease its operations and shut down.

*“Compared to the fine, the cost of the health examination is lower. The lowest fine would be RMB 50,000. But the pre-employment check merely costs RMB 100 for each person, which implies that if there are 300 employees who should be examined, it would cost the company RMB 30,000. In addition, the company cannot take the risk of ceasing operations and being shut down. To shut and then restart equipment would cause damage to it, which would result in a loss that is more than triple the fine. After weighing the results of being fined, most companies would provide free health checks before employees join the company” (Manager, Company D)*

In this case, both requirements of pre-employment health checks and regular health checks are legitimate and are proposed by the local health administrative department which is powerful and is in close proximity to the focal organisations. However, the absence of time sensitivity means for regular health checks the claim lacks urgency. Therefore, owner-managers give little priority to the claim for regular health checks made by the local PHB. However, for the claim of pre-employment health checks, the accumulation of all four attributes makes the local PHB the most salient stakeholder. Under such circumstances, owner-managers treat the pre-employment checks seriously.

**Finding 8: Weak stakeholders can increase their salience through other powerful stakeholders.**

Another illustration of the dynamism of the MAW-1997 is that weak stakeholders can increase the urgency of a legitimate claim through the help of another powerful stakeholder (Mitchell et al., 1997; Wood et al., 2021). Take Company E which is a textile factory as an example. As mentioned in the last chapter, the company has been punished by the local HRSSB for wage arrears and defaulting on its social insurance payments. There are three weak stakeholders in this case. The first is the employees of Company E. Employees cannot force the company to pay their wages and social insurance on time. Therefore, they have complained to the local HRSSB, in an attempt to get help from the government.

*“The payment I have received this month is what I should have got six months ago. The company ought to pay 10% of the endowment insurance, 8% of the medical insurance, unemployment insurance, employment injury insurance, and maternity insurance for us. Nevertheless, our company has not paid any social insurance to the HRSSB for a year.” (Employee A, Company E)*

After two inspections by the labour supervision brigade, the local Labour Security Administrative Department decided to issue an administrative penalty according to Article 90<sup>2</sup> and Article 91<sup>3</sup> of the Labour Law of the People's Republic of China (Standing Committee of the National People's Congress, 2018b). However, the owner has refused to comply with the ruling. Consequently, he has not paid the wage arrears to his employees nor the social insurance and fines to the local HRSSB.

In this regard, the local HRSSB is the second weak stakeholder. According to the interview with Staff Member A of the local HRSSB, his department does not possess the coercive power to enforce its ruling. Although the local HRSSB has political resources, if the owner of Company E does not wish to exchange political resources with the local HRSSB, the local HRSSB has no utilitarian power over Company E. The absence of compulsory administrative power meant that the local HRSSB had to apply to the basic level People's Court for enforcement. Only when the court approved the non-litigation administrative execution, did the penalty come into force. The court ruled that Company E has to pay the fine totalling more than RMB 50,000.

*“Company E has been a complicated case in our department. It has defaulted on wage and insurance payments for years. Two years ago, we received complaints from its*

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<sup>2</sup> If the employer prolongs work hours in violation of stipulations in this Law, labour administrative departments can give it a warning, order it to make corrections, and may impose a fine thereafter.

<sup>3</sup> The employer involved in any one of the following cases that encroaches upon the legitimate rights and interests of labourers shall be ordered by labour administrative departments to pay labourers wage remunerations or to make up their economic losses, and may even order it to pay compensation:

- (1) Deduction or unjustified delay in paying wages to labourers;
- (2) Refusal to pay labourers wage remunerations for working longer hours;
- (3) Payment of wages to labourers below local standards on minimum wages;
- (4) Failure to provide labourers with economic compensations in accordance with this Law after revocation of labour contracts.

*employees. We also noticed that the company did not pay its social insurance for a long time. Therefore, the labour supervision team came to Company E to investigate whether there are wage arrears. The first time, the factory's security guards denied entrance to our team. Having communicated with its manager, we went to the factory a second time and entered and successfully interviewed its employees. Through the inspection, our team found hard evidence of wage arrears. Hence, we ordered correction with deadlines to urge the company to pay the wages as soon as possible. Our department also delivered the notice to Company E about paying its overdue social insurance. However, the company neither replied to the order nor the notice. Employees constantly complained to our bureau about their wages. We are helpless as well. We do not have the compulsory right to freeze, impound, or transfer Company E's assets. Therefore, we advised employees to find another way, arbitration, to settle the dispute. Meanwhile, we started to file a lawsuit against company E. Due to the owner's wish that year to be elected as a local representative of the National People's Congress, he repaid the wages to the employees and the social insurance to us. He was then successfully selected as the representative of the local NPC. However, Company E defaulted on the social insurance and wages again the next year. After investigating, delivering the notice, and not receiving any reply from the company, we finally filed a lawsuit against Company E. Now, the case has been heard and ruled on by the local court." (Staff Member A, the Local HRSSB)*

Another poor stakeholder in this case is one of the company's creditors. Creditor A lent Company E RMB 38,000,000 in 2011. Company E agreed to pay this back by 2016. Company E agreed that if it failed to repay the loan within the timeframe specified, it would pay damages for breach of contract and additional interest according to the provisions of the loan contract. However, Company E failed to meet the deadline of 2016. Creditor A requested repayment twice a month from the agreed date of return. Company E responded that it could not afford to pay the money back, nor the damages and interest. As a result, Creditor A filed a lawsuit against Company E in 2017. The court ruled that Company E should repay the principal, interest, and damages within ten days after the ruling came into force. Nevertheless, Company E neither appealed to the higher People's Court nor satisfied the judgement. Six months after the court's judgement, Creditor A had to seek help from the court again. According to Article 242

and 244 of The Civil Procedure Law (Standing Committee of the National People's Congress, 2017a), Article 487 of the Interpretation of the Supreme People's Court on the Application of the Civil Procedure Law of the People's Republic of China (Supreme People's Court, 2016), and Article 38 of the Provisions of the Supreme People's Court on Several Issues Concerning the Enforcement Work of People's Courts (Supreme People's Court, 2020a), the court issued a ruling to enforce the previous judgement by 1) immediately freezing and transferring the deposits of Company E and other properties equivalent to the amount of the debt, 2) freezing the bank deposits of Company E for a year, sealing and confiscating the owner's personal property for 2 years, and sealing his real estate and freezing other properties for 3 years from the day the second ruling was issued. In this respect, Creditor A has successfully claimed the money back.

It can be concluded from the above three examples, that legitimacy provides a proper reason for the court to get involved, which increases the importance and the possibility of weak stakeholders' claims eventually coming into existence. All three stakeholders lacked sufficient coercive power and utilitarian power to force the owner of Company E to meet their legitimate demands. The owner also regarded the three stakeholders' claims as lacking urgency. Nevertheless, the legitimacy of the claim authorised the court to exert its coercive power on Company E's illegal actions, and thus to protect the three weak stakeholders' legitimate rights. Without the help of the powerful stakeholder, the owner of Company E would continue to ignore the employees, the local HRSSB, and the creditor's legitimate claims.

Furthermore, the dynamism of the attributes is clearly shown in the case of the local HRSSB and Company E. The local HRSSB's claim that Company E should repay the wages to employees and the unpaid social insurance to them was neglected by the owner of Company E at first, given it lacked coercive power and utilitarian power. However, the owner of Company E was desperate to be nominated as a local NPC deputy, which gave the local HRSSB utilitarian power, and thus the problem of the wage arrears and the unpaid social insurance was solved. Later, when the owner successfully became a local NPC deputy, the local HRSSB lost such power over the owner and the company once again failed to pay wages and social insurance.

## **6.8 Conclusion**

As a final point, it can be concluded that the CSR of Chinese SMEs is a non-strategic action enforced by coercive legal and cultural isomorphism (Visser, 2011; Roszkowska-Menkes and Aluchna, 2017). More specifically, the diffusion of CSR shows a defensive and partially charitable CSR form in the context of Chinese SMEs (Hofman et al., 2017; Roszkowska-Menkes and Aluchna, 2017). Owner-managers adopt CSR only in response to the legitimate claims of powerful stakeholders rather than regarding it as an effective management tool. Hence, overall CSR performance is superficial (Scott, 1987) rather than being something that is internalised as a core business strategy.

Coercive isomorphism dominates the way the organisational field affects CSR behaviours, whereas mimetic isomorphism and normative isomorphism have limited relevance. The motivation of the six SMEs to take legal responsibility is to deal with regulations and the government's requirements in case of possible fines or lawsuits. Installing air pollution control systems and sewage treatment facilities are ad hoc environmental protection programmes to avoid the risks of being punished by the government. Most owner-managers do not regard these projects as a necessary part of their sustainable business development due to the lack of CSR awareness and management knowledge.

With respect to ethical responsibility and philanthropic responsibility, the CSR activities which are adopted are also enforced by coercive isomorphism instead of altruism. For example, the Chinese public takes holiday welfare for granted. And community involvement reflects perceived social norms. Owner-managers attach low significance to employees who bring limited financial resources to their organisations. For charitable activities, companies donate a fixed amount of money under the pressure of certain government policies. Philanthropic behaviour aims to maintain or to prevent damage to relationships with local government officials, and to get closer access to potential political resources. Donations to the community are also the result of social expectations from physically and emotionally proximate stakeholders. Even though managers show positive attitudes towards giving back to society, most Chinese SMEs



cannot be categorised as successful businesses that can afford the high cost of charitable activities. Therefore, voluntary donations are rarely found in the context of Chinese SMEs.

Regarding the MAW-1997 itself, urgency is differentiated from power and legitimacy due to its debatable position in the identification and salience model. As mentioned in the chapter of theoretical framework, Jones et. al (2007) and Neville et al. (2011) argued that urgency is not that important in the identification process, given that the urgency of a claim cannot influence owner-managers' decisions in the same way as power and legitimacy, and instead it is mainly relevant in prioritising the salience of the stakeholder. Driscoll and Starik (2004), by contrast, did not deny the existence of urgency, but instead found limitations concerning the original assumption. They suggested that the probability of a claim happening should be incorporated with urgency. Through the examples of Company D, Company G, and the local HRSSB presented above, this research supports the argument of Driscoll and Starik (2004). When an important and time-sensitive claim comes to the owner-manager of an SME, the likelihood of the claim finally coming into existence is vital in the owner's decision-making process.

The current study also finds that proximity is the fourth attribute that influences owner-managers' judgements about stakeholder salience, and supports the idea that such judgements should not be restricted to power and legitimacy in the way that Neville et al. (2011) advocated. Indeed, although Neville et al. (2011) did not completely refute the influence of proximity on CSR decision-making, they suggested internalising it within power and legitimacy. They stated that the identification of power and legitimacy covers the influence of network, and therefore that proximity should be included in the two attributes. However, their proposition neglected urgency. By contrast, Spence (2016) found that proximity is another assessment criterion of urgency. The extent of social nearness between a stakeholder and a focal organisation affects the evaluation of urgency (Spence, 2016). Therefore, this study argues that it is reasonable to isolate proximity from the other three attributes and for it to be added as the fourth element of the stakeholder identification and salience model. In fact this study conclusively showed that, physical distance and emotional distance between

stakeholders and a focal enterprise are critical factors that influence whether owner-managers perceive stakeholders as salient in their CSR decision-making.

Similar to proximity, legitimacy is found to be critical to the identification of stakeholders but has limited influence on the prioritisation of different stakeholders' claims. More importantly, it is shown that the definition of legitimacy should follow the argument of Neville et al. (2011) who refined it to be moral legitimacy.

In addition, power is identified as the most critical of all four attributes. The effective implementation of CSR strategies requires sufficient organisational resources (Roszkowska-Menkes and Aluchna, 2017). Utilitarian power offers the possibility for organisations that face resource scarcity to exchange resources with powerful stakeholders. Financial resources, human resources, and political resources are significant in every stage of a company's expansion. Stakeholders who have more access to the above categories of resources are more salient to managers, and managers are more willing to respond to these "*rich*" stakeholders.

However, stakeholders who possess normative power have limited influence on owner-managers. The way normative power leads to CSR behavioural changes is through reputation. Despite cultural norms that have no restrictions on distance, social norms only become effective when stakeholders are in close proximity to the focal organisation. If stakeholders have a significant geographic and spiritual distance to the company, owner-managers will to a large extent ignore their claims.

Compared to utilitarian power and normative power, the possession of coercive power, e.g., physical sanctions, force, legislation, government activities, and the courts, is more crucial in forcing SMEs to practice CSR. All six cases indicate that the government's coercive power compels SMEs to act in accordance with legal rules. Such coercive pressure is more deterministic than any other attribute in the Chinese institutional environment.

Furthermore, the dynamism of the MAW-1997 has been demonstrated in a dichotomous manner in the Chinese SME context. First, the application of MAW-1997

in the Chinese institutional context results in unique characteristics that are rarely found in other contexts. For example, coercive power is the most evident attribute in China given the significance of government. Second, stakeholders can intensify their salience by increasing the number of attributes they possess. This enables local government to become the most influential stakeholder on the CSR decisions of Chinese SMEs.

However, the conclusion that the accumulation of attributes makes stakeholders more salient, does not imply that this phenomenon can be used to compare different stakeholders, but instead its relevance is limited only to single stakeholders. Indeed, the categorisation of stakeholders based on the possession of attributes has already been shown to be problematic, illustrated by the circumstance that expectant stakeholders might attract more attention than definitive stakeholders (Neville et al., 2011). The extent of a claim's legitimacy and urgency and the extent of a stakeholder's power and proximity are the decisive factors, rather than just the number of attributes they possess.

As a supplement to the homogeneity of CSR practices, results of the MAW-1997 show that there are few explicit CSR measures which meet stakeholders' expectations. Local government is the most influential external stakeholder for Chinese SME CSR decisions. The possession of coercive power and utilitarian power guarantees that legitimate claims will be acted upon by the owner-managers of SMEs. Due to the lack of critical resources and CSR awareness, few SMEs would actively take CSR measures. The extent of CSR performance largely depends on what activities the local government requires SMEs to undertake. Moreover, other stakeholders have limited resources to influence CSR decisions in the Chinese SME organisational field. Although the local community has normative power over the company and its proximate geographic distance can affect the CSR decisions of SMEs, its influence is much less than local government. This is because what the local community can provide is comparatively less significant to the survival of the company given its limited resources. In the same vein, although employees are the only internal stakeholder who can influence the decision-making process of SMEs' owner-managers, their influence is limited by restricted human resources. Purely legitimate and urgent claims and employees' close

relationship with owner-managers can seldom influence a company's CSR without the support of power.

## **Chapter 7: Discussion**

### **7.1 Introduction**

This chapter aims to discuss the implications of the findings presented in the previous two chapters. It seeks to address a third sub-research question concerning why particular stakeholders and specific attributes are salient to SME CSR decisions in the Chinese institutional environment while others are less influential. It also addresses the fourth and final sub-research question regarding the influence of China's political, financial and cultural systems on SMEs' CSR decisions. Drawing conclusions from the findings presented in the previous two chapters, it is clear that the key characteristic of Chinese SME CSR is that it is mostly state-led and partially society driven, and that government, as the most powerful stakeholder, both causes and strongly influences most SME CSR initiatives and SME CSR decision-making. Indeed, it is evident that due to coercive government pressure, most Chinese SMEs feel compelled to perform CSR rather than voluntarily pursuing these measures.

Using the perspective of the National Business Systems (NBSs) approach (Matten and Moon, 2008; Hofman et al., 2017), i.e., political system, financial system, and cultural system, this chapter will examine how China's NBS influences that way owner-managers conceive and practice CSR. Notably, the influence of political system will be elaborated through the perspective of state governance and legal system. Specifically, this chapter will investigate why the Chinese government is so much more powerful than any other stakeholder and why power overrides all other attributes. The chapter will show that, while it is rational to assume that companies would conform to formal institutions, e.g., obeying legal rules, in a strongly government-driven context, in reality in the Chinese context, SMEs have not performed their environmental protection responsibilities well, a situation that only changed when the central government initiated a major regulatory campaign described as the "strictest environmental protection storm" (Jia, 2017), and that they also generally perform poorly regarding employee responsibility. Given this, the chapter will address the questions of how historically rooted national institutions contribute to such a situation and why stakeholders like employees and the community are unable to exert their influence on SME CSR. Finally, the chapter will discuss the extent to which the underlying features

of the Chinese institutional environment explain the failure of Chinese SMEs' CSR decision-making and will thus contribute to answering the overarching research question of this study.

## **7.2 Chinese State Governance**

The influence of the political system is investigated in relation to how two institutions, i.e., the system of Chinese state governance and the Chinese legal system, affect the CSR performance of SMEs. This section particularly discusses how the current mode of Chinese state governance explaining why SMEs regard the maintenance of social stability as their primary social responsibility and why, while they often perform reasonably well in terms of certain social responsibilities such as philanthropic responsibility and some legal responsibilities, they tend to be less interested in legal responsibilities that are not strictly enforced by the government.

### **7.2.1 Chinese State Governance System**

State governance describes the stable and recurring measures and procedures of how the government handles public affairs, challenges, and crises within its territory (Zhou, 2014). Different governments tend to have unique preferences for daily routines and risk management (Zhou, 2014). According to Article 30 and 31 of the '*Constitution of the PRC*' (National People's Congress, 2018a, chap. 1), China is divided into 32 provinces, autonomous regions and municipalities directly under the control of the central government, and 2 special administrative regions. Under the local government hierarchy, provincial administrations occupy the highest level, followed by cities, counties and towns (National People's Congress, 2018a, chaps 1, Article 30). The Chinese political system is characterised by the downward flow of administrative and authorisation power from the central government (Zhou, 2007). As such, the central government has the most power over resource allocation and cadre appointments, and pushes policy implementation via a top-down approach (Zhang et al., 2011; B. Li, 2018; Huang and Kim, 2020). In contrast, local government acts as the executor that carries out specific government policies. In general terms, a high degree of centralisation allows central government to exert its will, but this comes at the cost of taking power away from local governments and weakening their governance, whereas a higher

degree of decentralisation increases the feasibility and effectiveness of local governance, but potentially poses a threat to the unified central system (Zhou, 2017). As will be explained below, these broad principles have significant practical implications in China's case.

The current mode of Chinese state governance has resulted in a unique central-local relationship, and this offers a special angle to illustrate how local governments in China influence the CSR decision-making of SMEs. In addition, the promotion tournament model for government officials that exists in China explains why local protectionism has emerged and how it damages the enforcement of certain laws. In an attempt to remedy this, the central government has adopted a campaign-style approach to enforcement to improve how legislation is implemented. It will be demonstrated that although this approach is effective in its first few years, without radical reform to China's state governance mode, this type of interference gradually becomes less successful in challenging the existing Chinese bureaucratic system over the longer term. Furthermore, the overall state governance system has resulted in the deficiency of political resources for SMEs, which has become one of the main barriers to SME CSR. This situation also helps to explain why government is so influential in CSR decision-making.

### **7.2.2 Central-local Relationship**

In China the central-local government relationship is neither solely centralised nor decentralised, but instead exhibits a flexible and continually evolving combination of the two characteristics (Zhou, 2014). This relationship has in a large part been determined through several rounds of reform including, SOE reform, tax-sharing system reform, investment system reform, and financial system reform all of which occurred after the 14<sup>th</sup> National Congress of the CPC in 1992 (Zhu, 2019). First, local governments started to control local SOEs through the "clear property rights, clear rights and responsibilities, separation of government and enterprises, and management science" process (Zhu, 2019, p. 144). Second, the separation of central tax revenue and local tax revenue, and wider authority over investment grants gave local governments more autonomy over regional affairs (Wong, 2000; Donaldson, 2017; Zhu, 2019; Meng and Su, 2021). Third, the central government reinforced its dominance over

macroeconomic regulation and control via the establishment of financial supervision institutions in provincial governmental areas (Donaldson, 2017). These reforms to the central-local relationship have avoided both the over-decentralisation of power, which could lead to excess production and redundant construction, and have also avoided an extremely high degree of centralisation (Zhu, 2019).

The compromise between centralisation and decentralisation, and the flexible and dynamic characteristics of the central-local government relationship represent the regular pattern of state governance in China (Zhou, 2014; Zhu, 2019). However, the rise of local protectionism has emerged as a damaging side effect of this state governance model (Zhang et al., 2011; Zhu, 2019) and the conflict of interests between the central government and local governments is considered to be one of the main factors that undermines the effective enforcement of laws and the supervision of companies (Zhang et al., 2011; Kostka and Nahm, 2017; Zhu, 2019).

Evidence for this comes from the fact that it is common for local governments, particularly at the town and county level, but sometimes even at the municipal level, to overlook the polluting behaviours of local enterprises (Rooij, 2006). Instead, local governments often prefer to serve their own interests, which typically relate to generating rapid economic growth and ensuring social stability, rather than protecting the more diverse range of national interests, i.e., strictly implementing environmental regulations and other national policies formulated by the central government. The poor implementation of environmental regulations before the environmental storm triggered by the central government is a typical example. Two major causes for this phenomenon can be identified.

First, local enterprises can help promote social and political stability, given their function of offering job opportunities for neighbourhood residents. As the interview results suggested, all the owners and managers mentioned maintaining social stability as one of the social responsibilities that they have shouldered. Such a phenomenon is distinct from any other national CSR contexts, given that in China keeping society stable is prioritised over making profits. For example, Company D went through bankruptcy five months before participating in this study's research. Instead of being liquidated, the local government helped the company to reorganise its debts and restart



its operations. The reason why the local government expended great effort to support Company D is because Company D provides a large number of job opportunities.

Normally, bankruptcy reorganisation procedures can be complicated and time-consuming in China (Tomasic and Zhang, 2016). For example, in the first decade of the 21<sup>st</sup> century, courts did not even register bankruptcy petitions unless there was an order from the government (Zhao, 2017), because bankruptcy cases always involve complainants, i.e., creditors and employees, and therefore the closure of a company is often likely to cause significant local dissent. In practice, to avoid incidents of social instability, local authorities prohibited local courts from performing their duties without the permission of the local government (Ong and Göbel, 2012). In a case where the government believes a company like Company D is too significant to be allowed to shut down, it would order the local court to pursue reorganisation instead. Also, the government can be helpful during the reorganisation process (Han et al., 2019). The government's coordination of creditors, accountants, lawyers, and local courts breaks down barriers that otherwise might impede reorganisation. Interventions to assist reorganisations boost cooperation between different administrative agencies, e.g., the tax authority and other related local departments and financial institutions. The interference of the local government also dramatically reduces consultation and approval time, which allows owners to reopen their businesses as quickly as possible.

As the manager of Company D claimed, *“the primary social responsibility of my company is to offer jobs to the 750 employees”*. He added that, *“some of the employees working here are the main breadwinners for their families, since our company offers higher wages than others in the neighbourhood”*. Not paying wages or defaulting on payments might cause an unsettled situation in the local area. For example, employees who do not get paid may protest outside the local government offices, or petition higher level authorities for help. To avoid any possible incidents of social instability and the blame they would bring from higher level government, the grassroots government made great efforts to properly settle the issue and to protect the livelihoods of Company D's 750 employees and their families. Put simply, promoting the reorganisation of Company D so it could resume its regular operations was the most reasonable solution from the government's perspective.

Second, local enterprises are the main contributors to the local tax base and GDP. Given that local governments typically face high pressure from their debts and deficits, local corporate income tax is one of their most important financial resources (Wu and Feng, 2014). Tax revenue also guarantees the payment of wages to local administrative departments. It also determines how much the local government can invest in public services including education, public health, and infrastructure.

Moreover, continuing economic development is one of the most significant principles of China's governing ideology, socialism with Chinese characteristics (Peters, 2017; Xi, 2017). Since Deng Xiaoping proposed that economic development is at the core of Chinese socialism and is a principle that should be upheld for 100 years, economic development has been firmly established as the central task of the primary stage of socialism (Zhao, 1993). This means that any other tasks are subordinate to economic development in China (Central Committee of the Communist Party of China, 2017). Furthermore, the central government believes that social stability is the only way to guarantee economic development (Shan, 2013; Wang, 2015). This can be seen from Deng's remark to George H. W. Bush, "in China the overriding need is for stability. Without a stable environment, we can accomplish nothing and may even lose what we have gained." (Feng, 2013, p. 25). "Stability overrides everything" is therefore widely quoted in various official statements and speeches (Feng, 2013, p. 25).

*"For secrecy reasons, I cannot provide you with the detailed rules for the performance evaluation system in written form. However, I can tell you that economic development is given much higher priority than all other tasks, e.g., environmental protection, education, and people's living conditions. In 2009, the Shandong provincial government published an assessment rule including 6 main parts, with 25 sub-categories. In total officials can amass up to 1000 points under these categories depending on their performance. In 2013, the assessment system was upgraded. 70 points are available for the amount of tax revenue generated. This is the highest among the 25 categories. Per capita GDP, the income of city residents, and resident income ratio between urban and rural areas all comprise 60 points. Although 90 points are available for social security, this actually comprises four parts, i.e., civil administration,*

*human resource and social security, living and construction, and public health.” (Local Cadre A, the leader of the town)*

Although the central government has stated that GDP figures should not be the only indicator of cadre evaluation, the total amount and the growth rate of GDP are still important components to assess the performance of local government officials and to determine whether local government leaders can secure promotion (Tomasic and Zhang, 2016). As a result, local cadres often cover up the facts about polluting enterprises for the sake of increasing tax revenue and getting promoted. Local government’s economic interests, local cadres’ political interests, and local entrepreneurs’ economic interests are more crucial than the state interests’ of protecting the natural environment (Zhou, 2004; Pu and Fu, 2018). Furthermore, it is clear that if there is no external pressure to change the structure of government, the regular governance model can continue to malfunction for many years (Kostka and Nahm, 2017). Unfortunately, labour protection shares the same underlying logic as environmental protection. According to the interview with Staff Member A from the local HRSSB, when maintaining social stability and increasing GDP are the main tasks of the local government, other political tasks inevitably make way for them.

### **7.2.3 Promotion Tournament Model**

The ‘promotion tournament model’ helps to explain why local government officials regard social stability and GDP growth as their priority (Zhou, 2014; Pu and Fu, 2018). Under the circumstances of political centralisation and fiscal decentralisation, it has been suggested that the central government encourages competition between local governments to help pick winners concerning who gets promoted, and that it adopts this tournament model as an incentive tool for local economic development (Zhou, 2007; Li and Liang, 2016). Compared to vague or subjective criteria, the fairness of the tournament model requires relatively objective and quantifiable standards for participants (Zhou, 2007). Therefore, the amount of GDP and its growth rate, fiscal revenue, the frequency of social unrest incidents and other objective criteria comprise the key elements of the performance assessment criteria (Zhou, 2007).

The tournament model brings all local cadres into competition with one another. Under this system, even if the leader of a local government does not wish to reach a higher position, he/she cannot prevent others getting ahead (Zhou, 2004). Moreover, if the leader of the provincial government wishes to get promotion, all the city level governments in that province which fall into his area of responsibility are required to fulfil the targets set by the provincial governor (Zhou, 2004). In this vein, governments at the lower levels of the administrative hierarchy, i.e., the county and town level, are required to meet the requirements of upper-level governments. In addition, the benefits of being promoted appeal to local cadres (B. Li, 2018). The official-rank standard (*guan benwei*) strongly influences the thoughts and behaviours of many Chinese individuals, as the prevailing culture in China values being a government official more than becoming a scientist or an entrepreneur (Schmid and Wang, 2017). Moreover, these benefits are not limited to the inherent political advantages of getting higher positions later on, but also bring potential economic benefits. For instance, as the leader of a local government, no matter at which level, an individual is authorised to control huge amounts of resources that directly influence the local economy (Zhou, 2007). For example, leaders hold the power to review and approve a wide range of administrative issues including land acquisition and the right to establish government policies that favour a particular industry. Power can therefore be easily transformed into private economic gains.

Furthermore, there is significant pressure to be promoted in the Chinese bureaucratic system (Meng et al., 2019). Indeed, the tournament model not only includes incentives for promotion, but it also contains provisions to discipline those who do not achieve the targets set by higher levels of government. As mentioned earlier, the political structure of the Chinese bureaucratic system determines that different levels of government are interconnected. For example, the successful promotion of a provincial governor is dependent on the accomplishment of tasks by lower-level officials. On the other side of the coin, the failure by subordinate governments to meet targets would affect the promotion of their superiors. If a government layer performs poorly, the leader of that administrative layer will be blamed and will lose the opportunity of being promoted (Chen and Liu, 2011). Therefore, the pressure also arises from the fear of being punished by higher level government officials. The Chinese promotion tournament

model is a stepladder tournament where contestants do not get a second chance when they lose a certain stage (Zhou, 2004). To best serve their interests, local government officials try their best to keep their positions. The knockout tournament is thus unforgiving, and it forces local cadres to do their utmost to win. Regardless of their desire to attain higher positions, the Chinese bureaucratic system forces local cadres to participate in the tournament.

*“An Opinion published by the provincial government explicitly noted that the annual result of the assessment is key evidence for nomination and promotion. Cadres from the top ranked city will be awarded and promoted to higher positions if they can maintain their gains, whereas cadres towards the bottom of the rankings will receive a warning, which means that they have little possibility of being promoted unless they make huge progress in the following years.” (Local Cadre A, the leader of the town)*

In this vein, to win the chance to be promoted, leaders and cadres share the same aim to increase GDP. According to Local Cadre A, developing local industries and attracting outside investment are two commonly adopted measures by the local government. Government officials therefore try to create a positive environment to attract local entrepreneurs and investors, normally with low land prices, use of subsidised electricity and water resources, and favourable tax policies. Whether the enterprise is a heavy polluter or highly energy-consuming are therefore not unacceptably negative attributes at this initial stage of Chinese economic development (Green and Stern, 2017; Zheng and Kahn, 2017). Although, it must be recognised that this situation has partly improved with stricter regulation and supervision, it still exists, particularly in less developed areas of China (Y. Yang et al., 2019).

*“In that era [pre-environmental storm], the supervision system collapsed. From higher level government to the grassroots government, they all only focussed on economic development. Nobody cared about pollution. Even though some government officials may have been a little bit worried about the air and water conditions in their home area, they believed that tackling pollution was not a priority and they didn’t believe they could do anything about it even if they wanted to. Essentially, they felt it was impossible to fight the bureaucratic system. However, with the increasing attention of central*

*government, the scrutiny on new investment has become stricter, which to some extent has improved the previously poor situation. But the disguising of unlawful behaviour happened frequently before the ‘environmental protection storm’.*” (Deputy Director, local EPB)

Another fact brought about by the evaluation system alongside the ‘*Regulation on the Selection and Appointment of the Party and Government Leaders*’ is that leaders of local governments tend to have less patience with regards to long-term programmes (Turiel et al., 2016). Instead, they are particularly favourably inclined to projects that can provide short-term benefits to their promotion chances (Xiaoliang Li et al., 2019). Article 51 of the Regulation articulates that local cadres who are leaders should not be promoted for at least 5 years after taking their position, but also not be in the same position for more than 10 years (Central Committee of the Communist Party of China, 2019). Furthermore, once they leave their position, whether with or without promotion, their new post should always be in a different locality. The promotion tournament model has accelerated the exchange process (Zhou, 2007). If a leader’s evaluation score is high enough, which means that the tax revenue they have collected and that the growth rate of GDP in their locality ranks top of the governments at the same level, and there has been no social unrest, the leader will be promoted after the minimum period of 5 years. This is important because not having to wait until the end of two terms, i.e., 10 years, can save the political life of local cadres, as China has strict restrictions on the age of cadres who are eligible for promotion. Therefore, younger cadres have natural advantages than their older competitors, and the earlier an official is promoted the greater their chances of reaching higher positions (Zhou, 2007).

As a result of this system, local cadres favour showcase projects to prop up their image and programmes that can directly increase revenue and GDP (Eaton and Kostka, 2014; Mao and Zhang, 2018) and this reduces incentives to strictly enforce environmental protection regulations and labour protection rules. Abiding by the law unquestionably increases the cost of production, for example, due to investment in equipment to treat sewage or providing overtime pay. The decrease of corporate income that these activities would cause would directly lower tax revenue. To protect both the local

government's interests and the leader's own political interests, local cadres often sacrifice the public's interests and national interests.

In addition, the rotation of cadres significantly influences the consistency of local policies (Kostka, 2014). Local governments are entitled to make appropriate policies according to different regional contexts. However, each leader has unique ideas and approaches which result in the inconsistency of local policy making. All of the owner-managers expressed worries about unstable government policies, given that government policies made by former governors are often discontinued or altered. If governors continually change their approach, this depletes SME's resources for new investment as they constantly have to change their equipment and facilities in line with new requests from the different governors. In turn, this undermines SMEs' ability to handle risks. Even the costs of the reconstruction and upgrading of environmental protection equipment can cause cash-flow problems, and then have ripple effects on the payment of wages and social insurance.

*“We do not have enough money to invest, demolish, and then reconstruct. Government officials tend to want to show their unique approach, and to prove their decisions are better than that of former governors. Take the government policy on the removal of old coal-fired facilities as an example. We were told to upgrade the power station equipment two years ago and that if we positively reacted to this policy, government would support 1/3 of the new equipment costs, approximately RMB 3,000,000. We were delighted that government could afford the partial payment, because the cost of the whole upgrade process was estimated to be RMB 10,000,000. In 2016, we changed the old coal-fired facilities to coal-powder facilities. However, no sooner than we had finished the upgrade, there was a new government policy which suspended coal-powder facilities due to safety concerns. In fact, if the quality of the coal-powder equipment is high enough, there is no problem and they are safe. The sudden change of policy was due to a change of leadership. After our huge investment of RMB 7,000,000, we do not have enough money to change the equipment again. As you know, we have not made any profit this year.” (Owner, Company E)*

*“Apart from the lack of financial resources, one of the biggest difficulties for my company is unstable government policies. The discretionary power of the local cadres is horrible. The policy is changing too fast. A small problem might not be considered as a problem if the mayor hadn’t changed. But after the changing of the leader, we would be penalised.” (Owner, Company F)*

Furthermore, according to the governmental evaluation rules, massive protests will trigger the ‘one-vote veto’ system and cause a negative assessment regardless of performance in other fields (Turiel et al., 2016). That is, even if the city ranks top for its GDP growth rate, the leader will be marked down severely due to collective protests. In this regard, although avoiding the submission of group petitions by dissatisfied citizens to higher level government does not gain as many points as increasing GDP, negative points are extremely high for not achieving this task (Wu et al., 2013; Kostka, 2014). Hence, to ensure there will be less or even no petitions, local governments often take special measures, e.g., intercepting or arresting people who intend to petition higher level government (Ong and Göbel, 2012).

*“The assessment rule explicitly establishes an upper limit for the number of people who can petition, normally together, to higher governments. For example, there are a total of 100 points in the social stability category. The number of people who can come to a non-specified reception site in Beijing to petition should not exceed 6 per year. Once the number exceeds the limit, 5 points will be deducted from the 100 possible social stability points for every extra petitioner. If more than 5 people petition together, when Beijing informs the provincial government, 10 points will be deducted per report. Furthermore, there should be no group petitions to the government at the provincial level. Once more than 10 people come to the provincial reception site, 5 points will be deducted each time. At the city level, restrictions are to some extent more relaxed. The number of people who can petition has been enlarged to 20. Also, if more than 20 people come to the civic centre, only 2 points will be taken. However, if there are large-scale protests or there is violence and crime, the government will earn nothing under the social stability assessment category. In all likelihood, under such circumstances, the leader would be beaten in the assessment competition by leaders from other cities.” (Deputy Director of the Administration Office of the town)*



Both local government and central government pay great attention to ensuring social stability. China is regarded as one of the world's most stable countries since the "overriding need for stability" has been established as an official principle (Yu, 2007, p. 2). Chaos is not permitted in China. Any riots, demonstrations, petitions and strikes are considered to be antagonistic to the country's rigid political stability (Yu, 2014).

The suppression of grievances directly affects the protection of poor stakeholders. Even though the petition system in China all but guarantees little possibility of success, appealing for help through the system is considered as the last opportunity for socially vulnerable groups to protect themselves by attracting the attention of higher levels of government (Lu and Tsai, 2017). While the '*Regulation on Complaint Letters and Visits*' (State Council, 2005) has a clear rule that orders local governments to provide assistance to complainants, in reality they are relentlessly suppressed. According to official statistics (State Council, 2005), the cost of ensuring social stability was EUR 90 billion in 2011, whereas military spending was EUR 86 billion (Ong and Göbel, 2012). This was the first time that expenditure on internal security exceeded the cost of national defence and shows the increasing pressure to maintain social stability. On the other hand, it also demonstrates the difficulties poor stakeholders face in protecting themselves.

An employee at one of the companies researched in this study, Company G, reported that although he works 365 days a year without any weekends and without any overtime pay, he is afraid to report his situation to the local HRSSB or higher-level government. He said he cannot exercise his legitimate rights under the law, nor can he organise his colleagues to protest against their company outside the local government's offices. He said he was concerned that if he tried any of these things, he would be arrested for disturbing the peace.

*"I am one of the most ordinary employees. I have a child to support. I would not take the risk of being caught or fired. There are no better choices other than keeping silent."*  
(Employee C, Company G)

The same logic applies to environmental protests. While a single report from an individual will not be taken seriously by the local government, a mass demonstration would challenge social stability and therefore be repressed (Wu et al., 2013). This means that the mechanism for transferring messages from the bottom of society to the top is blocked (Ong and Göbel, 2012). If local governments collude with polluting enterprises, hide air quality data and disguise illegal facts, it is problematic for the central government to understand what is happening in the state, and nearly impossible for poor stakeholders to expose detrimental behaviours.

Furthermore, China is a state-driven civil society. This means NGOs have limited grounds to act as mediators to help poor stakeholders be heard, given that ability to form and fundraise for NGOs or other similar associations is highly restricted (Turiel et al., 2016). As a result, there are few effective organisations to support poor stakeholders, e.g., labour unions and ENGOs (Environmental Non-Government Organisations). Take labour NGOs as an example. Howell and Pringle (2019, p. 238) use the word “nadir” to describe the current situation of labour NGOs in contemporary China and the literature suggests that labour NGOs lack trust from both the government and workers. On the one hand, many workers believe that labour NGOs work for the government as they think they simply safeguard government interests (Franceschini, 2014). Some citizens may also doubt their legitimacy given that they are not national institutions (Franceschini, 2014). On the other hand, from the government’s perspective, the collective bargaining and mass group petitions, which some labour NGOs have previously advocated, would result in increased social unrest (Chan, 2018; Franceschini and Nesossi, 2018). Given the resulting hostility of the government many Labour NGOs are unregistered and therefore are unlicensed to operate in China (Franceschini, 2014; Chan, 2018). Consequently, they are not qualified to represent workers as they may carry out “sensitive” activities (Franceschini, 2014, p. 483; Franceschini and Nesossi, 2018).

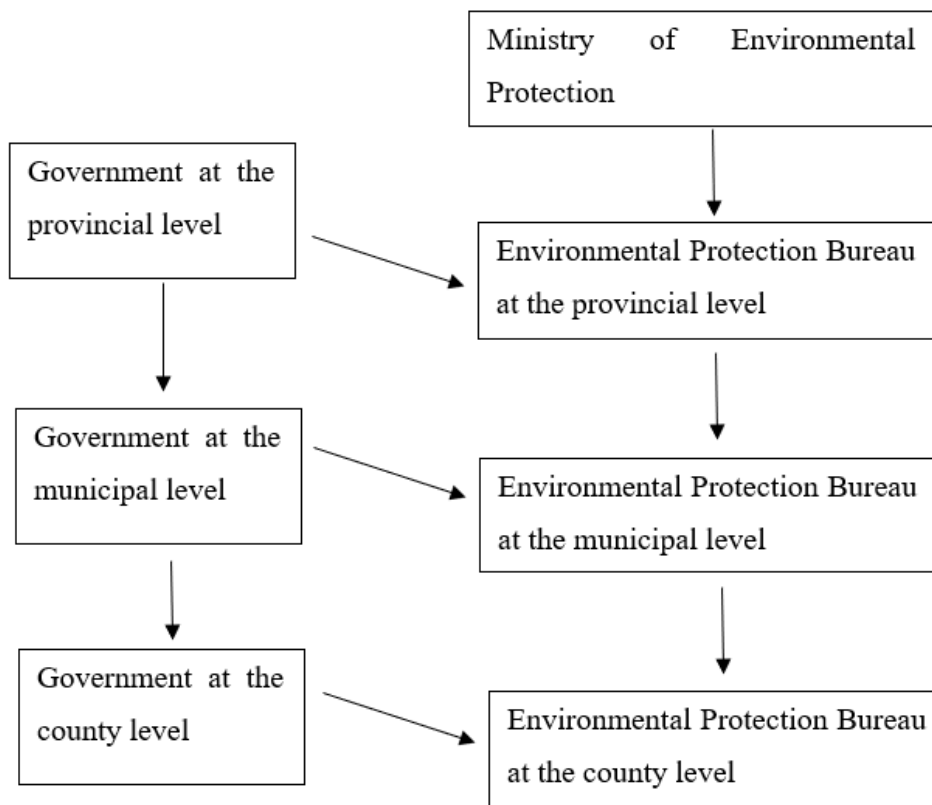
Moreover, China’s sole official labour union, the All-China Federation of Trade Unions (ACFTU), works as an effective tool for the government to control mass protests. It operates on a corporatist basis and leads all labour unions at different levels (Zhu et al., 2011; Fan et al., 2018; Yang and Tsou, 2018). As a de facto government organisation,

the leader of the ACFTU is appointed by central government, and local branch representatives are also publicly appointed (Taylor and Li, 2007). At the firm level, although it is stipulated in the Labour Law that the labour union should be voluntarily initiated by employees, few SMEs conform to such a rule (Fan et al., 2018). Instead of collective bargaining for higher wages and less working time, the labour unions in Chinese SMEs try to pacify employees who are experiencing wage arrears to prevent them from reporting violations or filing lawsuits. Indeed, many of the labour unions are just window-dressing, and their leaders are often the managers of companies' HR departments (Fan et al., 2018). According to the interviews conducted for this study, employees often do not even know whether there is a labour union in their company. When it comes to labour disputes, the first option employees generally pursue is to query their company's HR department rather than seek help from the labour union. In addition, it is nearly impossible for employees to get compensation when negotiating with owners or managers. They are generally easily discouraged by various tactics used by the owner-managers and then give up. In the same vein, there are no material incentives for the public to protest against government. Considering the risks of being put into jail or being accused of sedition, the public seldom challenge local government (Ong and Göbel, 2012). Therefore, the repression of labour NGOs and labour unions to a large extent discourages organised group activities and mass incidents. Having combined the aim of maintaining social stability with the cadre evaluation system, a situation has evolved where local government officials have a strong preference for short-term measures, e.g., suppressing labour conflicts or protests regarding environmental protection, rather than solving the actual underlying problems (Wang, 2015).

In addition to local protectionism and the cadre evaluation system, another barrier that blocks effective enforcement of laws and regulations is the structure of the Chinese bureaucratic system. Specifically, the system of parallel vertical and jurisdictional, or horizontal, management modes, which is also known as the 'Tiao-Kuai' system, helps explain the ineffective governance of illegal corporate behaviours (Kostka and Nahm, 2017, p. 573; Rooij et al., 2017; Wong and Karplus, 2017). According to Article 66 of the '*Organization Law of the People's Republic of China for Local People's Congresses at All Levels and Local People's Governments at All Levels*' (Standing Committee of

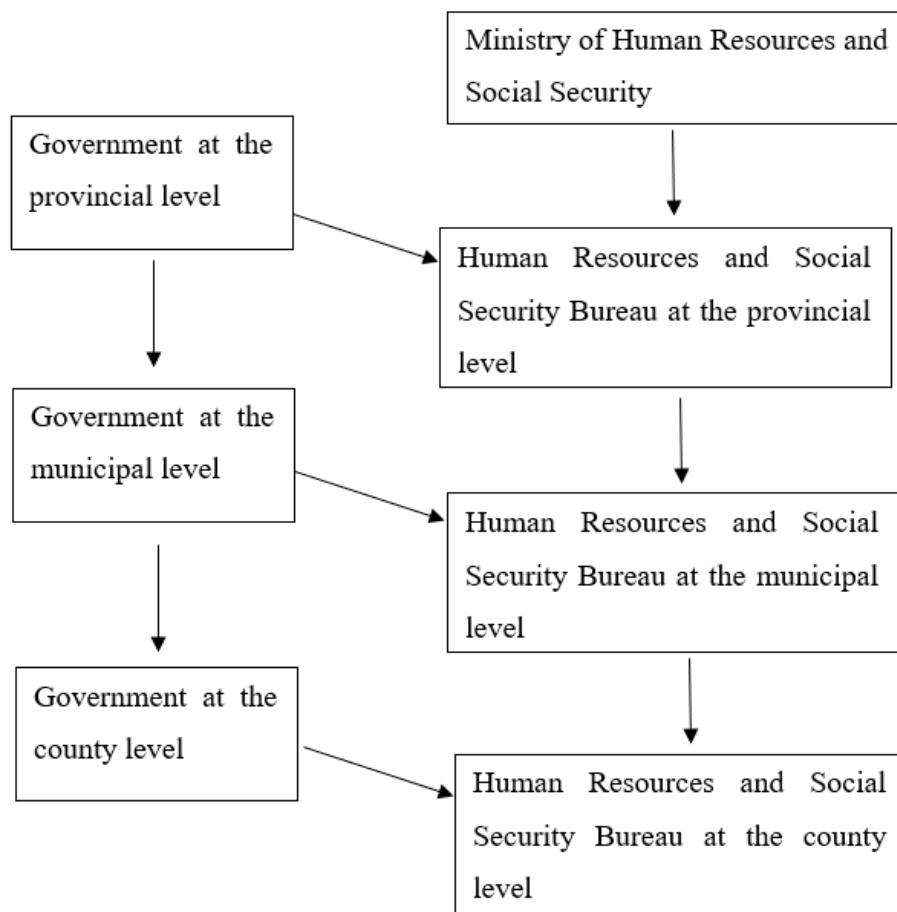
the National People’s Congress, 2015), local administrative bureaus are directed both by the local government and also their higher level administrative authorities under the State Council. Therefore, the EPB and the HRSSB at the county level, the lowest administrative level at which these organisations exist, are governed by the county government and are supervised by the municipal EPB and the municipal HRSSB, who themselves are overseen by the provincial EPB and the provincial HRSSB, who finally answer to the central government ministries of Environmental Protection and Human Resource and Social Security respectively (See Figure 3 and Figure 4).

**Figure 3: Example of the Local EPB within the “Tiao-Kuai” System**



Source: Rooij et al., 2017; Standing Committee of the National People’s Congress, 2015

**Figure 4: Example of the Local HRSSB within the “Tiao-Kuai” System**



Source: Standing Committee of the National People’s Congress, 2015; Y.-F. Wang, 2016

Although the local EPB and HRSSB are supposed to be led and supervised by their upper-level EPB and HRSSB, given the significant control that the promotion assessment system and annual budget provides to local governments, the local government also exerts a direct influence on the two departments. For instance, the local governor can make decisions concerning the promotion or demotion of the leaders of the local bureaus (Mertha, 2005). Hence, when implementing environmental or employee protection rules, local bureaus tend to consider the local government’s interests. Given this, it is clear that only if there is a better consensus between the central government and local government, will the regular governance mode work well. Otherwise, if there is a conflict between national interests and local interests, supervision from upper-level departments tends to be ineffective.

Moreover, the jumbled bureaucratic structure and complex lines of responsibility erode the efficiency of national governance, which gives rise to the problem of fragmentation (Y.-F. Wang, 2016). As one of the most prominent characteristics of the ‘Tiao-Kuai’ system, local governments do not have executive rights to specific affairs but do exercise political power to control executive departments by means of allocating human resources (Mertha, 2005). Executive departments are the main bodies which implement laws and regulations and handle daily matters, and they are separate from each other. If there is a political campaign, for example, to solve all wage arrears in a period of less than three months, local governments would coordinate and integrate the policies of executive departments such as the local HRSSB, the local police station, the local taxation bureau, and the local court to achieve this goal. If they do not do this, local bureaus do not cooperate. Because local EPBs and HRSSBs lack the coercive power to constrain companies, laws and regulations thus become largely decorative in nature and do not achieve their intended function of overseeing and protecting society.

*“According to the Law of the People’s Republic of China on Administrative Penalty, we do not have the right to arrest the owner or the manager of a company which is acting illegally. That is the duty of the police. If there are no executive orders from the local governor, we can hardly form a joint law-enforcement team ourselves.” (Deputy Director, local EPB)*

Furthermore, the bureaucratic structure causes an imbalance in enforcement powers. Some of the bureaus are overstaffed, such as local archive bureaus, local technology bureaus, or youth league departments; whereas departments tasked with enforcing laws face serious personnel shortages (Feng, 2009; Kostka, 2014). For example, as mentioned in the last chapter, four local HRSSB staff are unable to effectively supervise more than 2000 enterprises in their locality. Under these circumstances, both the effectiveness and efficiency of law enforcement cannot be guaranteed.

*“Before the environmental protection storm, there was limited ability to fully implement the environmental protection law. Take this town as an example. The EPB at the town level is window-dressing as just one or two people are in charge of more than a hundred manufacturing enterprises within this area and there is little or even no chance of*

*covering the whole town. Without other departments' help, how can we manage environmental protection by ourselves? (Deputy Governor, local town)*

In sum, local government, as the main body which implements the laws and regulations formulated by the central government, has contributed to the corrosion of China's original pattern of national governance. Taken together the conflict of interests between the central and local government, the performance assessment rules which determine the promotion of local cadres, and the complex bureaucratic structure have invalidated the regular governance system, and this contributes to lax regulation of irresponsible corporate behaviours, and even, in some instances, fuels illegality. Rooted in a state-driven society, the CSR of SMEs mirrors the broader government-driven characteristics of Chinese society. If the government, as the most powerful stakeholder, fails to guide corporations, it is unsurprising that owner-managers of SMEs show limited willingness to take legal responsibility.

#### **7.2.4 Campaign-style Law Enforcement**

To temporarily break barriers that arise from China's bureaucracy, the central government uses a unique tool, which is known as the campaign-style mechanism, to centralise power from the local governments for a period to allow it to address severe social problems (Jia and Chen, 2019; Song et al., 2019; Zhao et al., 2020). Such campaign-style interference is an unconventional method used to rectify the lax law enforcement of local governments (Liu et al., 2015). The central government, as the most powerful stakeholder, does not directly requisition the coercive power of local governments, for instance, by directly taking over their responsibilities, but instead uses an intensive supervision approach to shuffle the working mechanisms of local cadres and to restructure their modes of operating to get them to focus on central government's priorities.

##### **7.2.4.1 Institutional Changes**

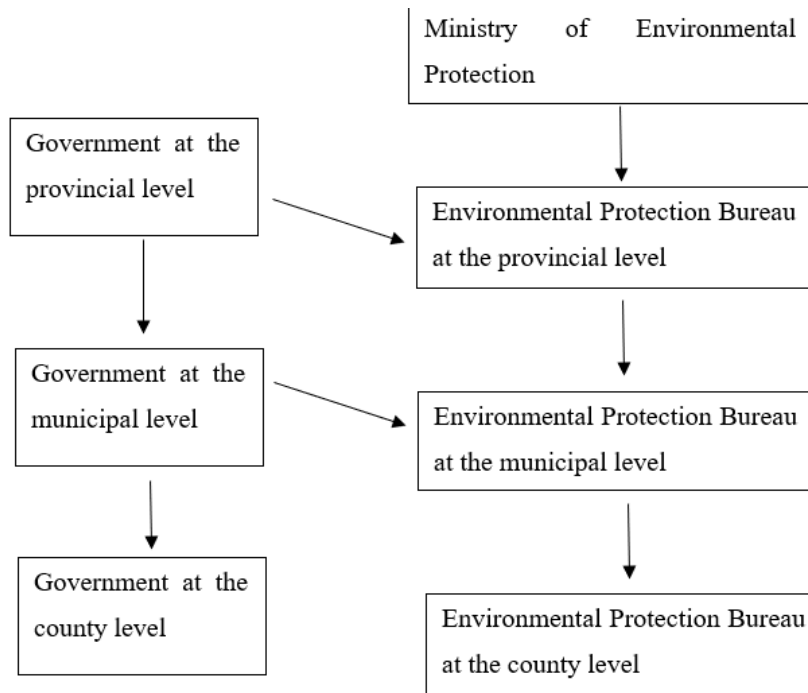
Take the "environmental protection storm" as an example (Zhang et al., 2007, p. 3; Gao et al., 2009). In recent decades, to break the regular governance model of local governments, the central government has initiated several environmental protection

campaigns (Gao et al., 2009; Liu et al., 2015). Most recently, in 2016, supervision teams were formed to effectively demonstrate the central government's commitment to improve air quality and reduce the number of haze days. This action can be regarded as a typical campaign-style interruption of local environmental protectionism (Jia and Chen, 2019). Specifically, the central government dispatched inspection teams to supervise the environmental protection of local authorities (Jia and Chen, 2019). The leaders of each team were reviewed and appointed by higher level members of the CPC. The vice directors of the groups were all vice-ministers at the Ministry of Environmental Protection. Team members were selected from various provinces with the main principle of personnel selection being to avoid local interference and to guard against local protectionism (Jia and Chen, 2019).

Alongside the supervision teams, the “environmental protection storm” has altered the bureaucratic structure through soft centralisation. According to official guidelines published by the General Office of the Central Committee of the CPC and the State Council in 2016 (Xinhua, 2016), the central government aimed to reform local environmental institutions, by adjusting their functions and by changing the local vertical management of the institutions. Shandong province, where this research was sited, has followed these central government guidelines. As a result, the provincial EPB has taken back the right to monitor and supervise environmental issues from the EPBs at the city and county levels. According to the interviews with staff from the local EPB, although the municipal EPB is still governed by both the municipal government and its higher-level EPB according to the ‘Tiao-Kuai’ system, the main governor of the municipal EPB has switched to the provincial EPB rather than being the government at the municipal level. The provincial EPB has taken over the right to assess and appoint the head and the leading party members of the municipal EPB. Because of this change, the municipal government can no longer directly appoint the head of the municipal EPB. Moreover, the county-level EPB has been changed to become the agency of the municipal EPB. Unlike the municipal EPB, the county EPB is no longer an executive department belonging to the county government. The municipal EPB also has absolute control over the appointment of the head and leading members of the EPB at the county level (See Figure 5).



**Figure 5: Reform of the EPB Institutions**



Source: Xinhua, 2016

In addition to the alterations to the institutional structure, the “environmental protection storm” has changed the assessment rules for local cadres. Firstly, environmental protection now accounts for a far greater proportion of their promotion evaluation scores (Xiaoliang Li et al., 2019). Based on the interviews of the staff members of the local EPB, per capita GDP has decreased in importance and now only accounts for 25 points in comparison to previously when it accounted for 60 points, whereas the points for ecological civilisation have increased sharply from 20 points to 80 points since the campaign was implemented. Secondly, if the inspection team from the central government finds environmentally damaging behaviours, the cadre who will be blamed has changed from the leader of the local EPB to the local governor. Therefore, the future prospects of local cadres have begun to be tightly bound to local environmental performance (Liu et al., 2012).

The results of the environmental protection campaign are evident from the progress made in air quality control and the enhanced management of polluting behaviours (Xinhua, 2020). Strict supervision from the central government, the soft centralisation of environmental protection institutions at the provincial level, and the adjustment of

the assessment rules for local cadres have to some extent broken the previous inadequate governance system of environmental protection and local protectionism has been curbed, at least temporarily.

Interviews for this study were conducted in 2018, i.e., one year after the first round of the environmental storm triggered by the central government. According to the statistics provided by the interviewed local EPB officials, the number of enterprises which were punished was less than thirty per annum in 2014, 2015, and 2016. However, in 2017, the number dramatically increased to approximately seven hundred. Furthermore, while the average fine was between two and three million RMB in 2014, 2015, and 2016, following the political campaign, the average fine soared to RMB 23,000,000 in 2017.

#### **7.2.4.2 Changes Concerning Local Government Behaviours**

Stricter law enforcement has been realised from two perspectives. First, the way laws are enforced has changed. On the central government side, cross-area inspections reduce the possibility of disguising illegal facts. Specifically, local governments have lost their ability to influence inspection results through ‘guanxi’, since inspection group members are purposefully selected from different cities, or even different provinces. Also, because the right to monitor has been centralised to the provincial EPB, it allows the monitoring of air and water quality data online in real-time. From the local EPB’s perspective, the inspection brigade will not notify the town-level government or enterprises anymore before they visit companies.

Second, the local government provides more support than before. Given the pressure of having to take responsibility and therefore blame for violations, local governments now allocate more resources to their local EPBs, including both funds and equipment. Before 2017, only eleven staff worked in the inspection brigade of the local EPB which participated in the current study. According to the interviews of the local EPB officials, this made covering the 1600 enterprises within their jurisdiction extremely difficult. Even though the central government required local EPBs to inspect 15% of all enterprises in their locality each quarter, the local EPB could barely achieve this target. However, with the new regulatory campaign the EPB has received an investment of five million RMB from the local government, which has allowed the local EPB to

successfully recruit one hundred new employees, who since 2017 have had specific responsibility for undertaking environmental inspections. The local county is divided into five grids, and the new one hundred employees take charge of these grids.

*“The recruitment to a large extent relieves us from the previous situation where we were unable to handle inspections quickly enough. They [the new employees of the local EPB] are all well-equipped with brand new electric bikes, which guarantees they can help us to examine enterprises every day.” (Official B, Local EPB)*

Local government also helps to coordinate various separate departments. The attitude of other executive departments, e.g., the local police station and the local bureau of finance, and the attitude of the lower-level government, i.e., the town-level government, has changed due to pressure from the county-level government. For example, the town government has started to proactively assist the local EPB to monitor contaminants. Furthermore, the police have started to ensure that the government’s coercive power is used to deter enterprises from discharging pollutants and the bureau of finance now seldom sets aside funding requests from the local EPB.

*“As managers of SMEs, we have changed our attitudes towards environmental contamination. Before the storm, no one cared about the inspections, no matter at what level. Inspection teams from the Ministry of Environmental Protection would come to examine us once a year. Before they came, the Provincial EPB would issue notifications to all the municipal EPBs. The municipal EPBs would then transfer the notification to all of its county EPBs. All the relevant local government officials and enterprises knew how many people would come and when they would arrive. We could simply shut down the production line one day before they arrived. For the local EPB inspection team, staff who work in the town government would send us a message before they arrived at the company. Even if they found wastewater, they seldom issued heavy fines. However, since the environmental protection storm, we do not receive notifications from the local government. The government randomly selects the enterprises to inspect, and they come without informing us. Also, the police are now one of the local inspection team members. We are afraid of being arrested.” (Manager, Company G, the Paper Mill)*

However, despite the apparent immediate success of the campaign, this type of activity cannot transform into a normal working mechanism in the Chinese central-local government context (Zhou, 2014). This is because the fundamental contradiction between central government and local government remains. In the absence of a radical evolution to the central-local relationship, campaign-style enforcement can only temporarily interrupt the bureaucracy and the campaign will soon be assimilated into the regular governance system under the influence of the bureaucracy (Zhou, 2017).

As the actual controller of law enforcement agencies, local governments heavily affect the efficacy of the environmental campaign. In the interviews of the local EPB officials, they stated that the local government would only decisively change its attitude towards environmental protection if it is clear that the campaign will last for a long time. If not, there are several reasons why the “environmental storm” is likely to pass, and this notion is supported by evidence gathered in this study. First, inspections from the central government will gradually become ineffective. This is because the inspection result is extremely important for officials’ promotion prospects, and to evade punishment or losing their chance of promotion, leaders of the local government will try to avoid negative reports. Therefore, in a similar way to when lower-level governments face an inspection from the higher-level government or the EPB, the local government will inform enterprises ahead of the time when the central inspection team arrives. This leads to polluting enterprises simply suspending production during the inspection period, and then resuming production once the supervision team has left. In addition, for those enterprises which were warned following the last inspection round, they are supposed to rectify and fix any problems detected within a fixed period. The local government is responsible for supervising remedial action and for filing a final report after the rectification. However, if the local government believes that the campaign will soon be over, it will likely fabricate a story of successful correction which simply disguises the problems.

Second, without coordination support from the local government, there is a lack of cooperation between different executive departments. As reported by officials of the local EPB in their interviews, there have been recent instances where even after they have prepared all the necessary paperwork, the police have been reluctant to arrest the

owners or managers. Rather than arguing the EPB's application contains insufficient evidence, the police have instead put the documents on hold. Even when there is a ruling from the court or authorised documents from the provincial and municipal EPB, the local police will seek various ways to delay the process. Only when there is a direct order from the local government, would they detain the owners or managers of the offending companies.

Furthermore, apart from the resistance of the local government to environmental protection, the newly recruited inspection supervisors will inevitably be bribed by polluting companies.

*“These supervisors have fixed companies to examine every day. When they become familiar, it is inevitable that they will leak some information.” (Official B, Local EPB)*

Moreover, having become familiar with the online supervision system, enterprises are attempting to deceive and evade remote monitoring. Specifically, enterprises have found two ways of cheating. Take water quality monitoring as an example. First, companies put the detector that they are required to use into clean water rather than the sewage system, and then discharge the contaminated water as usual. The monitoring data therefore is useless. Second, online monitoring does not always work as it only detects data every two hours. When the company knows the exact time, for example, at 1pm and 3pm, it will discharge contaminated water at 2pm.

The negative attitude of the local government and the tricks of polluting enterprises are therefore contributing to the failure of the campaign. This demonstrates that although campaign-style law enforcement works in its early stages, it is not sustainable for long periods. The most important point concerns the fact that to maintain social stability, the central government will not take the risk of totally reforming China's governance system and the central-local relationship. Instead, recurring campaign-style enforcement pushes the governance system back to its regular pattern. Furthermore, given that local governments have limited resources to focus on all social problems, they will often not focus on specified areas and instead will concentrate on increasing local tax revenue to the greatest possible degree. Not addressing the root cause of the

problem, i.e., the contradiction between central and local government, means the law enforcement problem will persist, and therefore the system will continue to fail to effectively promote the legal responsibility of SMEs.

#### **7.2.4.3 Limitations of the Campaign-style Law Enforcement**

Furthermore, although air and water pollution have gained attention from central government, resulting in the environmental campaign, there are an array of other socially irresponsible behaviours which have not been prioritised. For example, wage arrears and overtime working. While, according to the local HRSSB, there is campaign-style law enforcement for wage arrears at the end of each year, in reality, compared to the environmental protection storm, the campaign for rectifying unpaid wages is relatively weak. The punishment for not paying wages is not as serious as the punishments issued under the environmental protection storm. Furthermore, labour protection does not account for many points within the cadre assessment system. In this regard, local governors will not be blamed for labour violations and such violations will not trigger the 'one-vote veto' for promotion. To sum up, the ineffectiveness of the regular state governance model leads to lax law enforcement, which in turn contributes to the collapse of SMEs' legal responsibility.

#### **7.2.5 Political Resources**

The unique state governance system has also contributed to the circumstance, which is that stakeholders with more political resources, i.e., the government in the Chinese organisational field, provide SMEs with incentives to adopt CSR measures. On the one hand, the government controls critical resources for firms' survival and development (Tang and Tang, 2012; Witt and Redding, 2012). Better connections with the government may bring critically needed resources and other potential benefits. For instance, as an NPC deputy at the municipal level, the owner of Company H is familiar with the policies that his company can take advantage of. The position also allows him to have closer relationships with government officials and other NPC deputies, e.g., the heads of local commercial banks. More effectively taking advantage of preferential policies and having easier access to credit leads to fewer financing problems, which provides Company H spare money for more CSR activities. Therefore, as being an NPC

deputy or CPPCC member allows owner-managers to build their political connections, the owner-managers of SMEs try hard to get elected to these positions, and consequently respond positively to the local government's claim of making donations to charity. The example of the owner of Company E paying wages and social insurance arrears in the year he was elected as a local NPC deputy supports this point.

On the other hand, government's strong influence is partly due to the deficiency of political resources faced by most SMEs. Given the nature of the firm, SMEs have less power to counter government (Tang and Tang, 2012). According to the SME owner-managers interviewed in this study, compared to owners of large companies and the Chairs of SOEs, owners of SMEs have fewer opportunities to become NPC deputies or CPPCC members. This is because SOEs play a far more significant role in the Chinese economy and social security system (Witt and Redding, 2012; Hofman et al., 2017; Liu et al., 2019) and because they have significant social responsibilities and therefore act like quasi-government departments (Guan, 2015). Thus, government policy is more favourable to large SOEs rather than private SMEs. According to a report published by the China-US Exchange Foundation, Chinese SOEs have long invested in critical industries like infrastructure construction, telecommunications, financial services, public transportation, electricity, and natural resource exploitation (Fan and Hope, 2013). Also, it is evident that Chinese SOEs prioritise providing social welfare rather than making profits (Zhou and Guo, 2009). In most circumstances, SOEs prefer to sacrifice financial performance for the maintenance of social stability (Bai et al., 2006). Therefore, policy makers tend to offer SOEs financial assistance including loans with very low or even no interest, tax allowances, explicit subsidies, public bailouts and other favourable policies. SOEs also frequently do not need to pay back the principal of loans, let alone the interest, as it is a common phenomenon for government to request that banks write off non-performing SOE loans (Bai et al., 2006).

### **7.3 Legal System with Chinese Characteristics**

Based on law-based governance, the CPC intends to develop and modernise the state governance system (Horsley, 2019). China has been attempting to establish a socialist legal system with Chinese characteristics (Central Committee of the Communist Party of China, 2017; Zhu and Peters, 2019). The Chinese legal system is different from many

legal systems found in the West. A fundamental difference is that in China the Communist Party leadership exists above the law (Horsley, 2019), given that the CPC leads the rule of law process and law is a tool used by the CPC to solve social problems (Information Office of the State Council, 2011; Gore, 2014). As a result, it is clear that China has adopted a unique dual administrative and legal mechanism.

This section shows that the socialist system of laws with Chinese characteristics, as a significant component alongside Chinese state governance within the Chinese political system, provides an answer as to why stakeholders like employees are less powerful than the government. Through analysis of how Chinese legal institutions influence the CSR decisions and behaviours of SMEs, the shortcomings of existing regulations and the current problems facing the Chinese legal system are identified and discussed. It will be suggested that imperfect regulations and the inherent features of the judicial system with Chinese characteristics concurrently contribute to lax law enforcement and poor stakeholder protection. Furthermore, it will be shown that the degree of stakeholder protection derived from the local legal environment has a significantly positive impact on SME CSR activities (Hou et al., 2020), which thus explains why stakeholders like employees lack power to affect CSR decisions and why their claims lack urgency.

### **7.3.1 Imperfect Regulations Regarding CSR**

Currently, China's laws and regulations do not effectively protect poor stakeholders and they make seeking help by pursuing lawsuits difficult. Specifically, the high cost of seeking help under the law prevents employees from settling disputes through arbitration and lawsuits. In contrast, the low cost of unlawful behaviours contributes to unscrupulous actions, i.e., overtime working, wage arrears and social insurance arrears.

Take labour protection as an example. The cost of protecting legitimate rights through the law is too expensive for employees, especially for poorly paid employees who work for manufacturing SMEs. Unlike employees who work in the high-tech sector, staff from the interviewed companies usually have few if any academic qualifications, which means that their work does not require them to be knowledgeable. Therefore,



employees are in a weak position, as they have low or even no utilitarian power against their companies.

### **7.3.1.1 Preferences Regarding Labour Dispute**

When a company damages its employees' interests, such as by demanding overtime working without paying additional wages, there are six options for employees. The first choice is the dissolution of the labour contract. According to Article 38 of the '*Labour Contract Law*' (Standing Committee of the National People's Congress, 2012), if the company does not adhere to what is specified in the labour contract, e.g., it fails to pay wages on time, fails to pay social insurance for employees, or damages employees' interests, employees are permitted to terminate their labour contract under any circumstances. The second option is simply to keep silent and accept the infringement of one's legal rights. This is the most common choice made by employees of Chinese SMEs. The third option is to negotiate with the management team, which tends to be ineffective if the company is intent on breaking the terms of the contract. The fourth option is to file a request for conciliation, a right which is provided under Article 10 of the '*Labour Dispute Mediation and Arbitration Law*' (Standing Committee of the National People's Congress, 2007), to the labour dispute mediation committee of the enterprise, or to one of the local or regional labour dispute mediation organisations. However, according to the interviews, none of the six companies that participated in this study has a labour dispute mediation committee. And, similar to the result of attempting negotiation with the company, if it deliberately refuses to pay additional wages, this option of conciliation is once again useless. The fifth option is to complain to the local HRSSB. Supposing that the local labour supervision brigade has investigated a complaint and, according to Article 90 and 91 of the '*Labour Law*' (Standing Committee of the National People's Congress, 2018b), there are de facto infringements to the workers' rights and interests, in this case, the local labour administrative department can order the company to make corrections and to pay remuneration and compensation to the aggrieved parties. Finally, the last method is to file for arbitration to the local labour dispute arbitration commission. Because according to Article 79 of the '*Labour Law*' (Standing Committee of the National People's Congress, 2018b), labour dispute arbitration is a procedural prerequisite

before the case can come to court, it is only when either of the parties are not satisfied with the ruling of the arbitration that they can appeal to the court.

For the problem of wage arrears, there are also six options, which are exactly the same as the options for overtime pay. However, in this case, consultation, rather than remaining silent, is the most common way to address the problem. Indeed, employees' and managers' attitudes are different concerning overtime pay and wages, since wages are absolutely critical for the survival of most employees, whereas overtime pay is an additional payment. When wages are not paid, staff will seldom keep silent unless the company is undergoing an extremely tough situation. Managers also prefer to consult with employees and try to reach an agreement to satisfy both parties. According to the interviews with the employees of Company D and Company E, who had defaulted on half a year's wages and social insurance, employees and their managers would find a compromise to satisfy both parties' interests. However, even if this outcome seems balanced, in reality it damages employees' interests.

*“Last month, I was paid RMB 2,500. This is the wage I should have been paid in January. Nobody wants to default on the payment. However, there are no other solutions for both the manager and me. As you can see, the company has been ordered to temporarily reduce production due to environmental pollution. There are not any new orders which means no income for the company. Even if the manager could raise money from financial institutions or private lending, such money should be used to improve the sewage system. Only when the company returns to normal and gets the machines running again can the wages be guaranteed. Thus, although we are employees, our attitude is the same as the owner's, and we just hope the company's situation will improve. This is one of the reasons for me not quitting and reporting the situation to the Human Resources and Social Security Bureau. Some of my colleagues have made complaints to the government, but there is no point due to the company's poor financial situation. Mutual understanding and reaching a deal might be the last and only resort. After all, most of us are in middle age. No one would recruit employees who are our age if we resign from here.” (Employee B, Company E, the textile factory)*

Few employees want to directly complain to the Labour and Social Security Bureau or file for arbitration to the arbitration commission before they consult with the management team. Arbitration and lawsuits are regarded as the last resort when there are wage arrears.

Similar to the remuneration problems discussed above, employees also have six options to tackle unpaid social insurance. Like with wage arrears, consultation with managers is the most common option when there are insurance arrears. However, compared to wage arrears, the extent of urgency for social insurance arrears is much lower. Endowment insurance can only be claimed when one reaches a certain age. Other insurance including medical insurance, unemployment insurance, employment injury insurance, and maternity insurance all require employees to meet specified conditions before being paid. Therefore, if the consultation fails to come to a positive conclusion, employees might complain to the local HRSSB, but they are highly unlikely to pursue other defensive activities, i.e., file complaints, arbitration requests, or lawsuits.

From the above three circumstances concerning how the employees of manufacturing SMEs handle labour-related problems, it can be concluded that employees are forced to keep silent about their unfair treatment unless it concerns their wages which are critical to their survival. Lacking coercive power to force the company to perform its legal responsibility, employees struggle to protect themselves. Even if there are channels for them to request help from the local arbitration authority or the court, they seldom choose this option.

### **7.3.1.2 Deficiency of Legislations**

Another issue that blocks weak employees from protecting their rights concerns the complicated structure and working arrangements of China's legal institutions. In particular, labour dispute arbitration, as the prerequisite for litigation, is time-consuming and lacks efficiency in solving labour-related problems. According to the interview with the local HRSSB official, it takes around one year for employees to go through the entire process. Before the arbitration starts, there is the mediation hosted by the arbitration institution. If either of the parties are not satisfied with the result of mediation or they refuse to mediate, then the arbitration process is triggered. This

process takes between 45 and 60 days to reach its conclusion. In the same vein, if there is any disagreement about the arbitration decision, either of the parties is allowed to file a lawsuit with the local court. The time limit for doing so is six months. During the trial, if either of the parties decides to pursue claims that go beyond their initial claims, and the additional claims are deemed to irrelevant to original case, they must file a new arbitration request for the additional claims. After receiving the ruling, if employees or the enterprise decide to fight the court's decision, they must appeal within 15 days of receiving it. Following an appeal, the court will send files pertaining to the first round of litigation to another court for the second round. Doing so, in addition to the time needed to consider whether the case should be registered, can take up to a month. If the court that is dealing with the second round of litigation believes that there needs to be a rehearing, it will have another three months to either confirm the previous judgement or to come to a new judgement.

The purpose of the arbitration process is to reduce the likelihood that cases will need to go to court and therefore to increase the working efficiency of the legal process. However, more than half of all labour dispute arbitration decisions end up in court. Data show that courts uphold 62.76% of arbitration decisions (Huang and Cheng, 2018). The court for the first round of litigation will rehear the arguments made by the two parties during arbitration. The court that hears the second round will decide on the ruling of the first court, not the arbitration award. Another deficiency of the process is that there are no clear rules to specify what should be done if false evidence is submitted during the arbitration. As employees cannot always get access to their attendance records and the original copy of their labour contracts, the company carries the burden of proof. If the company revises an employee's timesheet, labour contract, payslip, or asks other employees to lie, the employee can do little to prevent these behaviours. They can only make a petition to the local court and accuse the company of perjury.

Therefore, the whole arbitration procedure for labour disputes functions very badly. Instead of reducing pressure on the courts and employees, arbitration before litigation tends to impede employees from seeking help from other powerful stakeholders to increase the urgency of their claims. The following truism is therefore particularly relevant in China, "Justice delayed is justice denied" (Falsgraf, 1958, p. 118). As such,

the Chinese labour dispute system does not efficiently protect employees' legitimate rights. The detrimental outcome is that employees generally choose not to try to use the law to protect themselves due to the inefficiency of the system.

As well as the arbitration rules, there are other deficiencies regarding China's Labour Law and Labour Contract Law. Although the order of payment rule, which gives employees the right to seek a court judgement to force a company to pay any wages that are due, has been added to the labour protection system (Standing Committee of the National People's Congress, 2012, chaps 3, Article 30), there are no supporting regulations to guarantee its effectiveness in solving wage arrears or other labour-related problems. The intention behind the introduction of the order of payment is comparable to the situation concerning arbitration before a lawsuit, and the primary motive for both regulations is to provide greater convenience for poor stakeholders, i.e., employees, and to reduce the local court's workload. However, the application of the order of payment has failed to resolve labour-related problems in practice for the following reasons. According to the interviews of the SME employees, only one knew that he could apply for an order of payment to claim back his wages and extra remuneration. However, he stated that the difficulty of having to bear the burden of proof stopped him from applying for the order. The rest of the interviewed staff had not heard about the order of payment.

*"This is the first time that I have heard of the order of payment." (Employee B, Company D)*

*"My friend has told me about the order of payment. But as far as I am concerned, there is little chance of successfully getting the payment back." (Employee A, Company G)*

There are two separate provisions which articulate the order of payment regarding labour protection. According to Article 30 of the '*Labour Contract Law*' (Standing Committee of the National People's Congress, 2012), when an enterprise refuses to fully pay an employee, the employee is authorised to apply to the local court for an order of payment. Furthermore, Article 16 of the '*Labour Dispute Mediation and Arbitration Law*' (Standing Committee of the National People's Congress, 2007), states

that if both of the parties reach a mediation agreement for wage arrears, compensation or other delayed payments, but the organisation fails to pay the money, the employee can apply for an order of payment with the local court.

Nevertheless, according to Article 217 of the '*Civil Procedure Law*' (Standing Committee of the National People's Congress, 2017a), if a debtor challenges the order in a written form, and the objection is considered and supported, the court should issue a ruling to terminate the procedure for debt repayment, and the order for payment will be automatically invalidated. According to Article 17 of the '*Interpretation of the Labour Dispute Case*' (Supreme People's Court, 2010), if the order is terminated, for the order applied under the terms of Article 30 of the '*Labour Contract Law*', the employee has to apply to the arbitration committee for arbitration to solve the labour dispute. In contrast, for the order applied in terms of Article 16 of the '*Mediation and Arbitration Law*', the court will accept the case.

In practice, according to the interview of the local HRSSB official, there have only been a few successful cases of claiming back remuneration from the order of payment. Instead, most orders are terminated and transferred to the arbitration process. One issue is that enterprises give false testimony in their written objections, for example, that there are no wage arrears owed to the employee, or there are other debts between the parties. This will invalidate the process since one of the prerequisites to apply for the order is that there are no other liabilities between the parties. In many cases the court does not carry out substantive examination of the company's excuses and quickly issues a ruling of termination. Therefore, the introduction of the order of payment rule and arbitration before a lawsuit has created barriers for employees to solve labour disputes rather than simplifying the process.

Another deficiency beyond the procedural problem concerns legal loopholes. All the interviewed SMEs evade labour protection-related legislation through lawful measures. Specifically, the minimum wage regulation provides a legitimate channel for companies to cut employees' benefits. China first issued the '*Notice Setting the Minimum Wage in Enterprises*' in 1993 (Ministry of Labor & Social Security (incl. Ministry of Labor) (dissolved), 2004). In 2004, the implementation of the '*Provisions*

on *Minimum Wages*' (Ministry of Labor & Social Security (incl. Ministry of Labor) (dissolved), 2004) mandated its full application by all organisations in China. The primary motivation for the minimum wage is to reduce poverty and income inequality. Nevertheless, due to a major flaw in terms of the fact that these regulations have not kept pace with China's rapid economic development, the law has been increasingly used to damage employees' rights rather than to protect them. The minimum wage varies between provinces. In Shandong, according to the local HRSSB official, the minimum wage was RMB 1,810 in 2017, and the average wage was around RMB 5,200. For interviewed employees, their average wage was about RMB 4,000. As mentioned in the last chapter, it is common for SMEs to use fake payslips to evade regular inspections by the local HRSSB. There are various deceptive practices regarding the minimum wage.

For instance, during recruitment companies promise high wages. However, this actually includes performance-related payments, overtime payments, fringe benefits, e.g., training fees, nightshift compensation, high-temperature compensation, meal allowance, and welfare fees that are not computed in the minimum wage. Although all the interviewed SMEs have signed labour contracts with their employees, according to the employees, some of their contracts are incomplete. Companies leave many blanks when drafting the contract and if the enterprise becomes involved in arbitration or a lawsuit, it revises the labour contract, e.g., fills in the blank area concerning wages. In this regard, companies avoid being punished by the local HRSSB or the court, given that the amount of payment stated in the contract is the basis on which overtime pay is calculated.

*“Not signing the labour contract is common for employees who have worked in this company for more than ten years. Before then, there was no supervision about signing the contract or not. One day, my department's director told us to sign the contract. We did so since the local HRSSB started to rigorously check the percentage who sign the contract. The director said that the contract was just a tool to deal with the inspection. The specified wage was not the real wage I receive. There would not be any changes to my wage. Many of us just simply signed the contract. We didn't look through the rules since we are not well-educated. Even if we checked, we wouldn't know if there's a legal loophole.” (Employee B, Company E)*

Alongside such legitimate methods, companies pay welfare instead of paying for overtime. For instance, many employees said that there is a category called “overtime working allowance” in their payslips. They believe such an allowance is for their overtime. However, this allowance is actually additional welfare that is beyond the Labour Law. In most interviewed SMEs, the amount of the overtime working allowance tends to be much lower than what should actually be paid for the extra work.

*“We don’t ask for payslips unless there are huge differences between my colleagues and myself. The accountant directly transfers the money to our bank accounts every month. If I receive almost the same as my colleagues, I will not ask for a payslip to see the detailed breakdown of my pay. But from what I’ve heard from others who’ve seen their payslips, there is an allowance called overtime working allowance. That might be the overtime working fee.” (Employee C, Company H)*

The outdated regulations also result in limited fines and punishment for the breaching the law, which increases labour disputes. For instance, the ‘*Regulation on Labour Security Supervision*’ (State Council, 2004) came into force in 2004. As the legal basis for HRSSB law enforcement, the regulations should be regularly updated but there have been no changes for more than 15 years. According to Article 30 of the ‘*Regulation on Labour Security Supervision*’ (State Council, 2004), if an enterprise fails to submit written documents to the HRSSB, or intentionally submits false evidence, conceals or destroys evidence, refuses to correct its behaviours or to implement HRSSB orders, the company shall be fined not less than RMB 2,000 but no more than RMB 20,000. The average wage reported by interviewed employees was RMB 4,000 a month. In this regard, if a company defaults on 200 employees’ remuneration for a year, the total amount of unpaid wages would be RMB 9,600,000. Considering the difference between the wages and the maximum fine of RMB 20,000, it is unsurprising that many companies breach the Labour Law. The same logic applies to overtime pay and social insurance. Laws and regulations have lost their coercive power on illegal behaviours, which also contributes to the weakness of the HRSSB and leads companies to not consider the inspection or investigation of the HRSSB as a serious threat.



### 7.3.1.3 Problems Regarding Law Enforcement

Law enforcement is another issue concerning the poor CSR performance. The above analysis supposes that the local HRSSB has investigated the illegal behaviours of a company and has issued an order of correction. However, many companies are not in fact fully covered by the HRSSB due to its shortage of human resources. According to the interviews with the local HRSSB officials, if employees do not complain to them, the local HRSSB struggles to examine all unlawful enterprises. As a result, these companies will not even receive an order from the administrative department and there is essentially no cost for violating the law.

In addition, in the labour protection legal system there are no other more serious punishments or administrative penalties beyond warnings, orders for correction, and limited fines. According to the interview with Staff Member B of the local HRSSB, the HRSSB does not have the right to suspend a business or to shut it down even due to extremely serious violations. Hence, the law enforcement of the HRSSB lacks the power to restrict enterprises, and thus the bureau does not serve as a deterrent to wage arrears which severely undermines labour protection.

In terms of environmental protection, even though fines can be higher, there is a major problem relating to discretion. In particular, the law empowers EPB officials to set the level of a fine within a very wide range. According to Article 82 of the ‘*Water Pollution Prevention and Control Law*’ (Standing Committee of the National People’s Congress, 2017b), if a company fails to install monitoring equipment, or fails to check the surrounding environment of where toxic water is discharged, the local EPB can issue an order of correction and impose a fine of not less than RMB 20,000 but not more than RMB 200,000. Furthermore, according to Articles 83, 84, and 85 of the ‘*Water Pollution Prevention and Control Law*’ (Standing Committee of the National People’s Congress, 2017b), the local EPB can impose a fine of not less than RMB 100,000 but not more than RMB 1,000,000 for the following violations: if the company discharges pollutants into a drinking water source protection area and does not subsequently dismantle its equipment; if the company does not have permission to discharge water pollutants but does so regardless; if the company falsifies monitoring data; or if the

company discharges water pollutants higher than the permissible standards concerning acid, lye, toxic chemicals, or radiochemical substances.

According to the interview with the official from the local EPB, the discretionary power over the level of fines allows the local government to seriously interfere with the law enforcement of the local EPB. Furthermore, there is a lack of clear and specific rules concerning what level of pollution will be considered as serious. As has been noted, the EPB has great power to decide whether a company should be fined heavily or not, given that the department is the main body that identifies pollution and issues orders. However, the director of the department does not have sole discretionary power in practice. For instance, if the director and his colleagues want to impose a fine, they will inevitably be contacted by one of the local governors, the leadership of the local EPB, the directors of other departments, the directors of other local administrative bureaus, and even the owner of the company which has violated the regulations. Due to the ambiguity of the legal rules and the nature of the Chinese bureaucratic system as described above, such contact cannot be rejected, and it will result in pressure either for the lowest possible fine or for ambiguous contradictory ‘evidence’ to be taken into consideration to potentially provide a reason for the punishment either to be reduced or to be cancelled entirely. This type of situation commonly happens in local law enforcement agencies. Consequently, local protectionism not only erodes standard punishments but also fosters corruption.

*“I cannot reject any of these persons’ ideas, including local governors, the leadership of the EPB, the director of my department, colleagues of other departments within the EPB, the leadership of other bureaus, and the relevant law enforcement departments in other bureaus. Some of them are the people who are in charge of personnel decisions and promotion. Also, if I encounter any trouble in the future I might have to beg for their assistance. These troubles are not my personal affairs, but business related to my daily work. Besides, even the SMEs’ owners who are familiar with the local leaders will call us and say that if you want to get promoted, you shouldn’t fine us. They also include the ‘Gods’ of the local finance. They offer not only tax revenue to the local government but also can donate cars or equipment to the local government and*

*administrative departments like us. Hence, we will usually only impose a minimum fine unless the violation is too serious to ignore.” (Staff Member B, local EPB)*

The above problems related to law enforcement similarly applies to arbitration. Although arbitration decisions have legal validity, the arbitration authority has no enforcement right to seal or freeze an enterprise’s properties. If the company refuses to pay according to an arbitration decision, employees need to apply to the court for compulsory execution (Standing Committee of the National People’s Congress, 2007). In fact, most labour disputes are caused by the inability or unwillingness of a company to pay wages or extra remuneration. Given this, there is a large possibility that the owner of such a business will not comply with an arbitration award. Therefore, a petition for compulsory execution is inevitable in most cases.

In addition, the local arbitration committee is under the full control of the local HRSSB. According to Article 3 of the ‘*Organizational Rules on the Arbitration of Labour and Personnel Disputes*’ (Ministry of Human Resources and Social Security, 2017), the local HRSSB is responsible for directing mediation, arbitration, and significant disputes in its region. The recruitment of arbitrators is also managed by the local HRSSB. On the other hand, the local government is in charge of the financial budget and promotion decisions of the local HRSSB. Hence, the local government can to a large extent influence the arbitration committee. Thus, local protectionism once again occurs and shields offending enterprises from being punished. This is another important reason why most interviewed employees reported that they do not wish to file for arbitration.

*“It is extremely common to receive calls from the leaders of the local HRSSB or even the local governors. Similar to what you have said, these poor employees have no choice, and as a normal arbitrator, I have no choice either. If I follow my leaders’ requirements, I may not necessarily benefit from an arbitration. However, if I do not, I certainly won’t get promoted, at least when these leaders are still there. Also, even when they transfer to other institutions, all my colleagues will know that I didn’t follow orders. What if the new leader finds out from my colleagues? You should understand that things are not simple when you are in this bureaucratic system.” (Staff Member B, the local HRSSB)*

*“There is pressure from colleagues at the same level. In this bureau, most of the staff are locals. Most SMEs are also locals. It is not surprising that everyone has private relationships [‘guanxi’] within their networks. Even if you do not care about the relationship with your colleagues, what about your private affairs? One cannot guarantee that you will never need to ask for a favour from your colleagues. The relationship is the same between local departments. The police station, banks, the taxation bureau, other local institutions, and our department are all part of the local bureaucratic system. When we have to arrest company owners, we need help from the local police station. When we need to freeze companies’ accounts, we have to seek help from the bank. For future convenience, we can barely refuse their requests for reduced or no punishment for the enterprises that have been sued.” (Staff Member A, the local HRSSB)*

#### **7.3.1.4 Problems Regarding Legislative Agenda**

As well as the unreasonable regulations, the excessive discretionary power and the small fines, there is also an absence of other regulations that contributes to the helplessness of poor stakeholders. Specifically, the law does not enable poor stakeholders to pursue the ultimate remedy when the normal legal system proves ineffective, i.e., the right to strike. For labour disputes, the right to strike is not permitted in the Chinese legal system (Chang and Cooke, 2015). Indeed, this right is missing from the Constitution, the Labour Protection Law and the Trade Union Law. When there are conflicts between management and workers, employees lack the coercive power to fight against the owners of their company. Due to the complicated arrangements of the labour dispute settlement system and the lack of the right to strike, employees are forced to suffer losses rather than being able to strike to claim their interests.

Any form of organised movement, such as a strike or protest march, is seen as a challenge to social stability in China, and is therefore strictly prohibited (Chang and Cooke, 2015). Such prohibition becomes a political task for the government to deal with rather than just a legal problem for the courts to judge. As mentioned above, social unrest is a serious matter that will trigger a ‘one-vote veto’ in the promotion system

(Ong and Göbel, 2012). Therefore, the right to strike or march is banned for political reasons.

However, this hasn't always been the case and the right to strike was first accepted in the 1950s and was further regulated in the 1975 (National People's Congress, 1975, chaps 3, Article 28) and 1978 (National People's Congress, 1978, chaps 3, Article 45) amendments to the Constitution. According to Mao Zedong (1956, chap. IV),

“The workers should be allowed to go on strike and the masses to hold demonstrations. Processions and demonstrations are provided for in our Constitution. In the future when the Constitution is revised, I suggest that the freedom to strike be added, so that the workers shall be allowed to go on strike. This will help resolve the contradictions between the state and the factory director on the one hand and the masses of workers on the other.”

However, this right was abolished in a 1982 amendment to the Constitution (National People's Congress, 1982), on the basis that strikes should be considered as a tool to resist class conflict in a capitalist system (Chen, 2010). However, in a socialist context with public and collective ownership, there ought to be no conflicts between workers and the state. Hence, the right to strike was removed from the Chinese Constitution. As subsequent regulations such as the Labour Law and the Trade Union Law, do not contain the right to strike, strikes or marches remain illegal and anyone who participates in them will be arrested for not less than 10 days but not more than 15 days based on Article 55 of the *'Public Security Administration Punishments Law'* (Standing Committee of the National People's Congress, 2013). In addition, employers are not allowed to include the right to strike in their company rules. In the case of *Pei Shihai v. Shunfeng Express Group (Shanghai) Express Co., Ltd* (Shanghai Second Intermediate People's Court, 2012), an employee who planned to strike via “WeChat” (the most commonly used instant messaging app in China), but who did not actually bring the plan into action, was fired by his company (Zou, 2018). The decision to fire the employee was supported by the court according to Article 25 of the *'Labour Law'* and Article 39 of the *'Labour Contract Law'* (Standing Committee of the National People's Congress, 2012).

Both the unreasonable nature of the regulations that are in place to protect employees and the absence of certain key legal provisions are the result of China's defective legislative system. Specifically, there are two problems caused by the system. First, the passing of laws is highly time-consuming. According to statistics, almost half of all regulations do not pass within the specified periods as planned and a tenth of legislation takes more than 10 years to pass (Truex, 2020). A key reason is infighting for power between ministries lowers the efficiency of law-making, particularly following the drafting period (Zhang et al., 2013). Only when there is an incident that attracts sustained public attention to a particular law does the bureaucracy speed up its work (Truex, 2020). The Environmental Protection Law is a typical example of legislation that has suffered considerable delays. After the promulgation of the first official '*Environmental Protection Law*' in 1989, it was then not further revised until 2014. With the economic boom that took place in that period, the old standards contained in the law quickly became outdated and were incapable of regulating pollution (Zhang et al., 2016). Between 1991 to 2011, there were 78 proposals handed to the National People's Congress (NPC), i.e., China's legislature, to revise the Environmental Protection Law (Zhang et al., 2013). Like other legislative processes, relevant ministries and local governments have continually fought to maintain their power during this process (Zhang et al., 2013). However growing concerns about environmental protection and public complaints finally accelerated the revision of the law. With mounting public concern at the end of the first decade of the 21<sup>st</sup> century the redrafting only took 2 years following the 2012 draft and the new law was promulgated in 2014.

However, in its role as China's legislature, the NPC often does not effectively represent the public's will. Instead, it simply acts as a 'rubber stamp' to pass bills (Gandhi et al., 2020). Although there are hearings and public debates during the revision of laws, public opinion is frequently disregarded. An important reason for this is that elites account for most of the NPC deputies rather than workers or peasants. In addition, even when there is a new piece of legislation which is strongly supported by the government and public, powerful interests in the NPC who are responsible for passing bills will try to resist it or to include provisions that are favourable to them in instances where new laws threaten their interests. The unreasonable need for labour dispute arbitration before

going to court explicitly demonstrates this problem. Employees who experience harm are not the people who have the right to revise the law. Opinions from the managers of most SMEs are also not well heard in the legislative process.

*“As far as I am concerned, the Labour Law in China is too advanced for reality. For SMEs, we have difficulties in achieving the high standards regarding working time. I believe this is the reason why most SMEs break the regulations concerning overtime working. But as managers of SMEs, our opinions are not that important to law-making. Compared to the owners of large companies who are NPC deputies, managers of SMEs are the same as the employees.” (Manager, Company C, the power station.)*

For environmental protection, with the recent campaign-style law enforcement, the unique Chinese legal system has to some extent improved the situation by revising the existing regulations and introducing other coercive powers (Zhao et al., 2020). It was not until the beginning of 2013 that China revised the ‘*Civil Procedural Law*’ (Standing Committee of the National People’s Congress, 2017a, chaps 5, Section 1, Article 55) which entitles the departments and relevant organisations as prescribed by law to file a lawsuit against those who cause environmental contamination. The revision of the ‘*Environmental Protection Law*’ (Standing Committee of the National People’s Congress, 2017c) also detailed elaborate qualifications necessary to be the main body able to apply for environmental public interest litigation. The authorised departments and organisations include administrative departments, “empowered to conduct marine environment supervision” (Standing Committee of the National People’s Congress, 2017c, chaps 1, Article 6), and social organisations that have, “legally registered with the civil affairs department of government at or above the level of a districted city and have specially engaged in environmental protection for the public’s interests for five consecutive years or more without any recorded violation of law” (Standing Committee of the National People’s Congress, 2014, chaps 5, Article 58). After a two-year pilot initiative of the People’s Procuratorate’s involvement in environmental public interest litigation, the Supreme People’s Procuratorate established eight prosecutor’s offices, with responsibility for environmental public interest litigation (Xie and Xu, 2021). In 2019, the right to file public interest lawsuits was officially written into the ‘*Organic Law of the People’s Procuratorates*’ (Standing Committee of the National People’s

Congress, 2018d, chaps 2, Article 20). Besides, the establishment of environmental courts in Higher People's Courts, Intermediate People's Courts and Basic People's Courts, other measures have also been introduced to support environmental protection in local contexts (He and Qi, 2021). The new rules on public interest litigation, the participation of prosecutors in environmental public interest litigation, and the foundation of the environmental court constitute a unique socialist legislative framework with Chinese characteristics for environmental protection, which is very different to the frameworks which exist in Western countries (Orrick and Harvard LIDS, 2016).

Although only a limited number of environmental NGOs have been authorised by the government and can successfully file lawsuits (Orrick and Harvard LIDS, 2016), prosecutor's offices at different levels have made great progress (Xinhua, 2019). According to the official statistics of the Supreme People's Procuratorate, from 2017 to 2020, prosecutors registered around 200,000 environmental public interest cases, issued 170,000 pre-litigation public announcements and procuratorial proposals, and filed around 10,000 lawsuits (Xi, 2021). In this period, about 2.82 million mu (a Chinese unit of area, equivalent to 1/15 of a hectare or 1/6 an acre) of polluted water, around 1.54 million mu of polluted soil, and around 3.7 million tons of solid waste have all been cleaned and treated. Furthermore, the total quantity of ecological compensation that was awarded amounts to RMB 3.3 billion (Xi, 2021). A special platform for public reporting of environmental pollution cases via the official website of the 12309 procuratorial service centre (Supreme People's Procuratorate) has also been established. This to a large extent has increased public participation in environmental protection.

However, in practice, there are also some problems with the unique procuratorial public interest litigation system. First, the following supplementary rules are inadequate. Specifically, it is difficult for prosecutors to search for evidence when investigating public interest cases (People's Daily, 2020). This is because companies have no obligation to cooperate with investigations and there is no rule which stipulates that companies would face any punishment for refusing to participate in an investigation. Second, local administrative organisations are reluctant to perform pre-litigation procuratorial proposals (Shi and Fu, 2019). Before filing a lawsuit, according to Article



21 of the *'Interpretation of the Procuratorial Public Interest Litigation'* (The Supreme People's Court and The Supreme People's Procuratorate, 2020), prosecutor's offices are obliged to send pre-litigation announcements and procuratorial proposals to the relevant administrative departments. If the departments fail to perform their duties according to the proposals, the prosecutor's office can then file a lawsuit with the court. In practice, because the procuratorate is at the same administrative level as other departments, procuratorial proposals have limited binding force (Jiang et al., 2020). Similar to the example discussed previously where an EPB makes a request for an individual to be arrested, the administrative department would set the proposal aside without explicit instructions from the local governor. Therefore, the effectiveness of pre-litigation proposals is reduced by local protectionism. Moreover, there is only a limited probability that the procuratorate will listen to the public and fully perform its duties (Ma, 2019). Understanding the effectiveness of procuratorates is challenging as it is impossible to know the exact number of cases that are reported. Local prosecutor's offices are also part of the 'Tiao-Kuai' system, and are therefore led both by higher-level prosecutor offices and the local government. Due to this, they are strictly comparable to other departments and are under the de facto control of local governments. With procuratorial public interest litigation being gradually assimilated by the bureaucracy and critically influenced by local governors, the introduction of the prosecutor's office to pursue public interest litigation has become meaningless. Furthermore, the public cannot directly file a lawsuit with the courts since they are not permitted to act as a main body to pursue litigation and the social organisations who are authorised remain restricted and are weak in performing their duties. All these factors ultimately result in the situation that poor stakeholders are still unable to protect themselves.

### **7.3.2 The Nature of the Procuratorial System in China**

The imperfect judicial system is one of the major contributors to the limited protection of poor stakeholders, which consequently guarantees limited urgency to their claims. Although the CPC (2013) has implemented several institutional reforms to the judicial system, e.g., the judicial centralisation reform, such reforms have not resulted in radical changes to the legal system (Wang, 2019a). In practice, the local government still often seriously interferes with decisions of procuratorates and the courts. To reveal the

fundamental reasons why the judicial agencies are easily influenced by the government, even under the circumstances of various ongoing reforms, there is a need to analyse the nature of the Chinese legal system.

This section begins with a discussion of how procuratorates at various levels have been governed since the procuratorial system was introduced in China. This includes the frequent changes to the way they are managed and their personnel appointed. The transformation of their functions offers insight into the inherent features of the procuratorial system with Chinese characteristics. Then, based on the results of the interviews with the six SMEs and the study's other participants, the section concludes that the judicial reform of the rule of law has failed to bring independence to the exercise of procuratorial power and that the legal supervision function of the procuratorates is limited in supervising law enforcement in China.

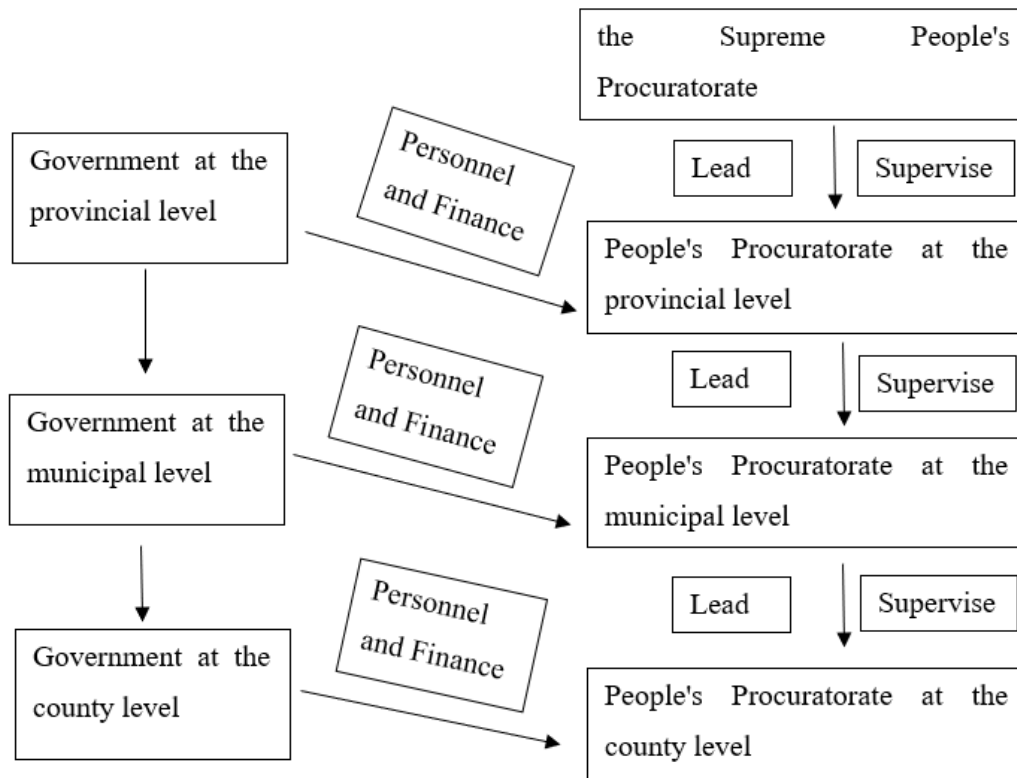
From the first draft of China's Constitution (National People's Congress, 1954, chaps 2, Section 6, Article 84) to the latest amendment in 2018 (National People's Congress, 2018b, chaps 3, Section 8, Article 138), apart for the period when the 1975 version of the Constitution was in effect, the Supreme People's Procuratorate has always been under the control of the National People's Congress (NPC) and its Standing Committee. Consequently, local People's Procuratorates ought to be directed by local People's Congresses and their Standing Committees at the corresponding level. This regulation determines the nature of the procuratorates.

Concurrently, the procuratorial work governed by Article 136 of the Constitution does not include those who are responsible for independently carrying out prosecutions (National People's Congress, 2018a). According to the '*Organic Law of People's Procuratorate*' (Standing Committee of the National People's Congress, 2018d, chaps 3, Article 29), prosecutors should work under the leadership of the Prosecutor General. When there is a major case, it should be handed to the Prosecutor General to reach a final decision (Standing Committee of the National People's Congress, 2018d, chaps 3, Article 29). Also, procuratorates at all levels have to set up procuratorial committees, which consist of the general, the deputy general, and several senior prosecutors (Standing Committee of the National People's Congress, 2018d, chaps 3, Article 30).

The committee is responsible for deciding major, difficult or complicated cases, and other relevant procuratorial problems (Standing Committee of the National People's Congress, 2018d, chaps 3, Article 31). Even though there have been reforms to empower prosecutors to independently determine cases, prosecutors ought to comply with decisions made by the committee (Standing Committee of the National People's Congress, 2018d, chaps 3, Article 33). Furthermore, taking their own future promotion prospects into consideration, prosecutors seldom make decisions that go against the opinion of their leaders or the committee.

In the same vein as other departments which are also in the 'Tiao-Kuai' system, the appointment, promotion and funding of local prosecutors are under the management of the local government at the corresponding level (See Figure 6). Because of this arrangement, local procuratorates have been assimilated by the bureaucracy and suffer from local protectionism. Put simply, when the prosecutors and the whole procuratorial system are not independent, legal supervision gradually becomes ineffective. Although there has been reform to the provincial unified management of personnel, finance and materials in the judicial organs, according to the interviews conducted for this study, the reforms have not radically changed the structure and working arrangements of the judicial system (Zhang, 2021).

**Figure 6: Example of Procuratorate within the “Tiao-Kuai” system**



Source: Y. Wang et al., 2017; National People’s Congress, 2018a; Standing Committee of the National People’s Congress, 2018d; Zhang, 2021

Take Shandong province, where this studied was sited, as an example. According to the interview with the prosecutor from the local procuratorate, in terms of the reforms to appointments, Shandong province has formed a new authority called the Selection and Punishment Committee for Judges and Prosecutors. The committee members include an NPC deputy at the provincial level, a CPPCC member, senior lawyers and representatives of judges and prosecutors. In general, the interviewee reported that the committee is more like a symbolic institution designed to respond to the requirements of central government. Significant jobs and the appointment of prosecutors are determined by the leader of the committee, who is a cadre from the provincial Political and Legal Affairs Commission, and by representatives of the judges and prosecutors, who are cadres or leaders from local courts and procuratorates at the county or municipal level. Attorneys, university professors, NPC deputies and CPPCC members have little influence on appointments.

On the other hand, the committee has been established to select new prosecutors and to determine punishments, but they are not in charge of promotions. Instead, the directors of local procuratorates still have great power in terms of decisions about internal promotions. To avoid conflict between the Constitution and the judicial reform programme, appointment authority for the president of the local procuratorate remains with the local NPC. As a result, the local government can still exert its influence on the promotion of cadres at local procuratorates. This judicial reform measure changes nothing in terms of the evaluation and promotion of leaders, and therefore will not change the situation of external government interference in procuratorial work.

However the centralisation of finance below the provincial procuratorates is simply a provision in a government document '*Decision of the CCCPC on Some Major Issues Concerning Comprehensively Deepening the Reform*' (Central Committee of the Communist Party of China, 2013, secs IX, Article 32), but in reality it is not well implemented. The finances of local procuratorates still largely depend on the local government at the corresponding level. Instead of being granted money from the provincial authority, the local procuratorial organs rely on funding from the local financial bureau to pay salaries, various expenses, and material benefits.

Judicial centralisation will not change the ineffectiveness of procuratorial supervision unless there is radical reform of the judicial system. Although the procuratorate is constitutionally independent from the government, the practical situation means it is another institution which is subordinate to local government. Hence, the procuratorate and other administrative departments are at the same administrative level. Given this, it is understandable why other law enforcement agencies often disregard the opinions of the procuratorates.

Moreover, even though public interest litigation has made progress since its establishment in China, it still largely depends on the decisions of courts. Indeed, procuratorates only have the right to investigate and file lawsuits, but they have no right to directly implement regulation to punish irresponsible enterprises. The results of public litigation or any other procedural appeals are primarily determined by the courts, given that courts are the judicial organ in China (National People's Congress, 2018a,

chaps 3, Section 8, Article 128). The next section analyses the other main part of the Chinese judicial system, which is the courts. By investigating the nature of courts within a framework of socialism with Chinese characteristics, the section identifies the specific reasons why the government heavily interferes in judgements and how this contributes to poor SME CSR performance.

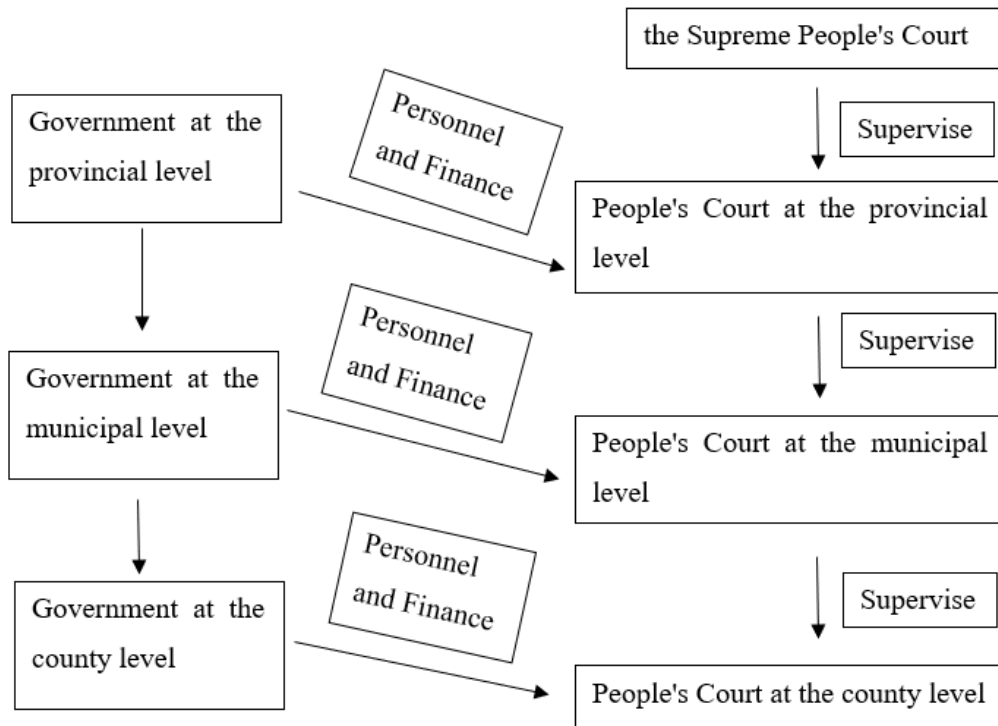
### **7.3.3 The Nature of Courts in China**

The Chinese judicial system shares almost the same structure and characteristics as the procuratorial system. As one of the most essential characteristics of the socialist system of laws with Chinese characteristics, the court is led by the CPC (Li, 2016). In this context, law has increasingly become a significant tool to regulate the country, which is evident in the deepening reforms which aim to produce “law-based governance” (Horsley, 2019). Party leadership over law-based governance, as stressed by Xi Jinping, gives de facto control to the CPC of “all areas of endeavour in every part of the country” through the courts (Central Committee of the Communist Party of China, 2017, p. 10).

According to the 2018 version of China’s Constitution (National People’s Congress, 2018a, chaps 3, Section 8, Article 132, Article 133), the Supreme People’s Court, which is supervised by the National People’s Congress and its Standing Committee, is the highest judicial organ and has the power to supervise all local people’s courts at various levels. In a hierarchical manner, higher-level courts supervise local courts’ work. All local courts come under the supervision of local People’s Congresses at the corresponding level (National People’s Congress, 2018a, chaps 3, Section 8, Article 132, Article 133). Here, therefore, there is a distinct difference between the court system and the procuratorial system, concerning the relationship between courts at the lower-level and higher-level supervision, because procuratorates at the lower level are both led and supervised by procuratorates at the higher level whereas courts are simply supervised but not led by higher level courts (See Figure 7). The supervision relationship allows judges from grass-roots courts to a large extent to stick to their opinions, rather than being influenced by higher-level courts. However, courts at various levels are also set up in a fairly homogeneous way to the procuratorial committee. For instance, there are also judicial committees designed to achieve democratic centralism (Q. Liu, 2018). Based on Article 36 of the ‘*Organic Law of the*

*People's Court* (Standing Committee of the National People's Congress, 2018e), courts at various level ought to establish a judicial committee, which comprises the president and vice president of the court, and senior judges, i.e., chief justices of divisions. Identical to the procuratorial committee, the judicial committee also enjoys the right to discuss and determine complicated cases and “major” relevant issues to cases (Standing Committee of the National People's Congress, 2018e, chaps 3, Article 37). Judges and the collegial bench have to conform to the decisions of the judicial committee (Standing Committee of the National People's Congress, 2018e, chaps 3, Article 39). There are not any specific rules about when a case can be considered as being complicated or how “major” issues are defined. The judicial committee has considerable discretionary power to determine final judgements. However, although judicial reforms have aimed to improve the judicial committee system, by allowing judges and the collegial bench to preside over judgements (Central Committee of the Communist Party of China, 2013), empirical evidence demonstrates that key aspects of judicial reform have failed.

**Figure 7: Example of Court within the “Tiao-Kuai” System**



Source: Y. Wang et al., 2017; National People's Congress, 2018a; Standing Committee of the National People's Congress, 2018e; Zhang, 2021

In practice, judges seldom deny the opinions of the leaders of courts since the administration of the judicial system seriously affects justice (He, 2012). Because the internal administrative management of courts copies other administrative departments, and has a hierarchical organisational structure, i.e., president of the court, the vice president who is in charge of the division, chief justice of the division and the judge or the collegial bench (Y. Wang et al., 2017). Leaders of the court enjoy huge power to make decisions about the promotion of individual judges with the Selection and Punishment Committee for Judges and Prosecutors simply serving as window-dressing. In fact, the committee's sole authority is to examine the selection of new judges and it seldom punishes judges. Furthermore, virtually no promotions are decided by the committee.

*“It is impossible for the committee to determine promotions at the provincial level. They are too busy to deal with a lot of work within a province.” (Judge A, local court)*

The president and vice president of the court generally nominate judges for promotion as before. Thus, even for very simple cases where there is no need to ask for the opinion of the judicial committee, leaders of the court can exert their influence through the administrative system, sometimes in verbal manner, or via written approval of case results.

To enhance mass internal intervention, the Supreme People's Court (Supreme People's Court, 2017) issued an Opinion concerning improving the supervision mechanism within the court system. This Opinion prohibits the president of the court and the chief justice of the division examining, issuing and approving written judgements for cases where they have not directly participated in the trial. It also prohibits the leaders of the court influencing the judgement in a disguised form, for example, through oral instructions, interfering with the collegial bench or reviewing the submitted written documents. The Opinion (Supreme People's Court, 2017) is highly effective regarding normal cases or cases involving small-sized enterprises but is less binding on cases relating to medium-sized or large enterprises.



*“Nowadays, there is stricter supervision over internal management. After the reform of the judge quota system, leaders seldom interfere with the judgement of the individual judge or the collegial bench. Case registration is automatically processed by computer, and 97% of cases are randomly assigned to judges. The other 3% might have missing information which cannot be recognised by the system.” (Local Judge A)*

The assignment of cases has been improved, which decreases the possibility of intervention. Nevertheless, according to the interview, the administrative management system allows the chief justice of the division to have a look at cases before they are assigned. The chief justices of divisions know every detail of cases and can still assign cases to judges in a disguised form, since the computer system is ultimately controlled by human personnel. Thus, for cases relating to medium-sized or large companies, which contributes greatly to the local economy and stability, the local government can influence the judgement even in the context of the new case assignment system.

*“They (judges) sometimes lie through their teeth. Each document and all the evidence are well-prepared and provided to the court. The collegial bench ignores the facts and the evidence and asserts that our evidence is too weak to win. They have already been told to come to this conclusion by their chief justices or the president of the court. The case result is decided before the court procedure even starts. We therefore appeal to the intermediate court for cases lost in the local court. The intermediate court has supported all of our cases, which shows that the local court’s judgements are ridiculous.” (Official B, local EPB)*

Neither judicial reform nor the campaign-style law enforcement, can fully eliminate the influence of local government on judgements (Zhang, 2016). Because of the control of financial resources, the local court and the local government cannot be completely separate. Although the independence of judges has partly improved since the judicial reform, internal and external intervention still exist in the Chinese judicial context and the system hasn’t fundamentally changed (Wang, 2019b). This means that courts, as one of the most significant mechanisms to achieve the rule of law, fail to enforce the law and ensure social justice. This not only destroys poor stakeholders’ confidence in trying to protect themselves through the court but also stops administrative departments

punishing irresponsible behaviours. For law enforcement agencies which have less coercive power, the court should be the authority of last resort to enforce the law and to act as a major deterrent to SMEs' unlawful practices. However, the interference in judicial justice has become part of the problem instead. This is obviously counterproductive to the rule of law, and results in the failure of SME CSR.

## **7.4 Financial System**

This section explains why the Chinese government dominates current SME CSR and how utilitarian power makes certain stakeholders highly influential to CSR decision-making from the perspective of the Chinese financial system. The underlying reasons for these phenomena are the low capacity for SMEs to make profits and the restricted avenues via which they can access finance. These two factors then help explain why owner-managers consider their lack of financial resources and limited government support to be the most common obstacles that SMEs face regarding CSR and taking social responsibilities beyond their legal requirements. The broad context is that many Chinese manufacturing SMEs are struggling to survive, and this means that they often find it extremely challenging to provide extra benefits for employees above and beyond their wages and to make voluntary donations to society. Indeed, for some the situation is so dire that they cannot even perform their basic economic responsibility and their fundamental legal responsibility. As a result, as discussed previously, many SMEs have succumbed to the environmental storm triggered by the central government, given that they lack resources to invest in environmental protection equipment (Yu et al., 2020, 2021). The typical lack of financial resources faced by SMEs mean that stakeholders who can provide life-saving financial support are more valuable than those without such utilitarian power. Therefore, investigating the financial problems facing SMEs in the manufacturing industry will help offer an explanation for the poor performance of SME CSR.

### **7.4.1 Financial Resources**

All the owner-managers of the interviewed SMEs regard a lack of financial resources as a huge barrier to them adopting CSR. Low profit is one of the most critical contributors to the deficiency of financial resources. Being highly labour-intensive,

achieving limited technical innovation and operating in an environment of disorderly competition are typical characteristics of Chinese manufacturing SMEs (Yu and Bell, 2007; Cardoza and Fornes, 2013; Tong et al., 2016; Chung and Tan, 2017; Shin, 2017). Building on the ‘smiling curve theory’ (Shin et al., 2012), manufacturing SMEs, especially most Chinese manufacturing SMEs who are situated in the middle of the curve, are at the bottom of the value chain (Shin, 2017; Lin et al., 2021). Their products and services generate low profit. Apart from Company H that manufactures anti-counterfeit labels, the rest of the five interviewed companies produce low value-added products, e.g., electricity and gas, tyres, towels and bed linen, flour and noodles, and paper. Whether they are profitable or not largely depends on their costs, i.e., the price of raw materials, labour costs, and their investments in environmental protection equipment.

*“If you look through our financial statements for the last decade, you will find that whether our company makes a profit depends on the price of coal. When the coal price was high from 2008 to 2013, we made little profit; whereas when the price of coal dropped between 2014 to 2016, we made a great deal of money. Last year, the price has increased a lot and our profit has correspondingly reduced.” (Manager, Company C)*

The frequent fluctuation of the raw material prices poses a significant challenge for Chinese manufacturing SMEs. Because it is hard to control the cost of raw materials, under the pressure of survival, owners and managers try their best to increase their profit margins regardless of whether this involves breaking the law.

*“The price of the rubber is fixed for most SMEs. How then can we compete with others and make more profit? The only way we can achieve this is to minimise the cost of labour. It is a task for us as managers to consider how to most efficiently organise working hours and to avoid unnecessary losses, for example, the losses from machines ceasing to operate. To deal with problems like that, we have set up a three-shift working system, in which employees have the right to rest for one day each week. Also, how to determine a reasonable piece rate is important to the control of our costs.” (Manager, Company D)*

In this regard, not investing in environmental protection equipment and increasing working time without providing overtime pay are the two most common strategies for manufacturing SMEs to reduce costs (Tian and Lin, 2019). Compared to environmental contamination and not paying for overtime, wage arrears are not included in the strategies used to increase profits. On the one hand, the government's requirement to maintain social stability forces companies to pay wages. On the other hand, although survival instinct trumps their sense of social responsibility, managers want to avoid defaulting on wages unless they are in a dire situation and have run out of all other options.

*“The average labour cost per tyre is RMB 40. If one working hour is added a day, the labour cost can be cut to RMB 37.” (Manager, Company D)*

*“If a company pays no overtime remuneration, it could still recruit new employees and keep its existing staff. However, if one does not pay wages or defaults for a long time, for example, a year, no one would come to that company. Its employees would also quit and find other jobs.” (Owner, Company F)*

*If Chinese manufacturing SMEs fully perform their legal responsibilities, 80% would go bankrupt.” (Owner, Company H)*

The above opinion of Company H's owner prevails among most owners of SMEs. All the interviewed manufacturing SMEs were established before 2010. In the years before the 2010s, China experienced extraordinarily high-speed economic development (Zhang et al., 2015; Luo et al., 2018). According to the manager of Company C and the owner of Company H, fiscal and monetary policies were loose, which meant that owners could easily apply for loans to start their businesses. Furthermore, local governments showed a positive attitude to the establishment of new companies due to the increase of tax revenue and the job opportunities for local residents they would bring. Therefore, they provided fast administrative approval and numerous favourable policies. As a result, huge numbers of SMEs sprang up in that era. The environment also enabled them to expeditiously achieve the primitive accumulation of capital and

then to expand to become larger more labour-intensive companies. Most manufacturing SMEs do not have core products that are unique from others. Instead, the way they make profits depends on producing a large volume of products with low margins rather than the high price of a single unit. Besides, according to the manager of Company D, compared to high-tech companies, manufacturing SMEs invest very little or even nothing on research and development. Instead, they make products that they copy from elsewhere that have the same function but with minor cosmetic changes. Consequently, most manufacturing SMEs are masters at copying the achievements of larger companies. This enables them to make profits with no research costs and there is no need for them to hire costly specialists to develop new technology. This gives the owners of SMEs the opportunity to use the money they save to enlarge their scale by hiring more staff and producing more of the same products.

*“We do not have an innovation centre or any originality in our products. New products depend on large companies’ innovative achievements. When they produce a tyre with new features, we buy and investigate their product. Normally, the investigation would not last for more than a week. Having changed some of the grooves that would not critically affect the functionality, and then having tested it two or three times, we will produce ‘our’ new tyres on a large scale.” (Manager, Company D)*

Moreover, according to the manager of Company G, qualifications for SME manufacturing companies at the start-up stage are lower than those for large companies. In fact, there is a mimetic process for the initial establishment of manufacturing SMEs. Specifically, if individual A finds that his neighbour or friend B has made great profits from establishing a company, A may copy B in an attempt to achieve similar success. Therefore, it is common for five or more small enterprises to be found producing the same products in the same industry within a single town. These industries always have low-entry requirements. Such ‘blind’ establishment results in redundant production and, as a consequence, all companies must reduce their prices to sell their products. If the cost of raw material remains the same, fewer companies will be able to make profits. This explains why companies try to pass on costs to the environment and their employees by exploiting these vulnerable resources.

Chinese manufacturing SMEs experienced a rapid and chaotic development period before the government decided to upgrade the country's industrial structure (Yi et al., 2020). The boom of the manufacturing industry, has created problems like low air and water quality (Han et al., 2011). To shut down outdated production facilities that fail to meet standards and to halt new projects that cause overproduction, the Chinese government has introduced numerous reforms to upgrade the country's industrial structure and to develop clean energy (Q. Zhang et al., 2019). At the end of 2014, the National Development and Reform Commission, the Ministry of Industry and Information Technology, the Ministry of Finance, the Ministry of Environmental Protection, the National Bureau of Statistics of China, and the National Energy Administration (2014) jointly issued the '*Interim Measures for the Decrement and Substitution of Coal Consumption in Significant Areas*'. The Measures aim to eliminate outdated industrial capacity, to reduce excess capacity, and to increase energy utilisation efficiency in eight provinces and districts (Zhijun Feng, Yanhua Liu, 2017). In the period from 2014 to 2017, China's provinces were directed to reduce their consumption of coal by varying amounts between 10 and 40 million tons (National Development and Reform Commission et al., 2014).

According to the 2017 '*Report on the Work of the Government*' (Li, 2017), Premier Li Keqiang stated that cutting overcapacity remains a major task for contemporary China in the near future. In 2017, the central government aimed to eliminate 50 million metric tons of steel production capacity, 150 million metric tons of coal production capacity and 50 million kilowatts of coal-fired power generation capacity (Li, 2017).

Along with the campaign-style environmental law enforcement, enterprises are being compelled to invest in both environmental protection equipment and to upgrade their facilities to prevent them being shut down. If their equipment fails to meet new tougher standards, manufacturing SMEs are either shut down or have to suspend their production until they make the necessary changes (Tang and Tang, 2018). However, because their profits are generally inadequate to pay for the improvements, external financing provides the only channel for them to reach the standard.

In contrast to SOEs, the government seldom directly allocates financial resources to private SMEs (Wang and Clegg, 2018). Hence, bank loans, short-term bridging loans, and private lending are the most common methods for SMEs to access the funding they need to attain the required environmental protection standards. However, even if they successfully borrow money to invest, their lack of profitability means they cannot guarantee paying back the loans. As a result, cash flow problems arise and they often go bankrupt and this is why so many SMEs have collapsed during the environmental protection storm.

Government efforts to cut industrial capacity have not only brought stricter law enforcement but also tighter monetary policies which significantly affect SMEs' ability to access financial resources. When the People's Bank of China (PBoC) tightens monetary policy, it becomes difficult for companies to secure loans from commercial banks and increased required reserve ratio limits reduce the liquidity of commercial banks. Furthermore, higher interest rates increase the cost of loans. (Lin et al., 2020). Thus, it is difficult for SMEs to take more social responsibilities without additional external financial support.

#### **7.4.2 Financing Problems**

Financing constraints have become one of the most significant barriers to the development of SMEs (Y. Wang, 2016). This directly restricts SMEs from taking more social responsibilities. Compared to large companies, it is a common global phenomenon that SMEs experience financing difficulties, especially in Asia (Malhotra et al., 2007). The immature domestic financial structure of many Asian countries is one of the most important reasons for such financing difficulties. Unlike Western countries that have mature investment markets, Asian countries, especially most developing Asian economies, face the same core problem in their financial structure, i.e., that banks dominate their financial systems (Yoshino and Taghizadeh-Hesary, 2018). For instance, loans from banks constitute 80% of the Chinese financial market (Yoshino and Taghizadeh-Hesary, 2018). Other forms of capital, e.g., venture capital, occupy relatively low proportions of the financial market. For this reason, according to the World Bank (2021b), East Asia and Asia Pacific account for 46% of the world finance gap. In China, which not only is the main contributor to the financial gap in Asia but

also among all developing countries, the gap between the supply of and demand for financing is \$1.9 trillion (International Finance Corporation, 2017).

Banks are supposed to be one of the most significant channels of finance for companies. However, 80% of Chinese SMEs are denied access to bank loans (L. Liu, 2018). As a result, self-owned funds have developed through the accumulation of financial gains and have become the most popular financing channel for SMEs. Also, most SMEs find it difficult to access finance through other external channels, e.g., capital markets and direct government support. Limited financial channels stop SMEs from achieving sustainable development and the burden of simply ensuring their survival blocks investment in projects to deliver higher level social responsibilities, and often even makes achieving basic economic and legal responsibility highly challenging.

There are three reasons why banks dismiss loan requests from SMEs. First, China's banks show limited interest in the small business sector. One reason is because there is insufficient competition in the Chinese banking system. The government regards banks as tools to regulate the national economy and certain historical factors continue to shape the current banking system. For instance, before the initiation of 'Reform and Opening Up' in the late 1970s, China's banks were totally state-owned and isolated from the world economic system (Martin, 2012) and the centrally planned economy stopped competition between banks. The only function of banks was to provide deposit and withdrawal services according to the governments' requirements (Martin, 2012). Following the initiation of the market orientated reforms in 1978, China's banking system has gradually generated competition between domestic financial institutions, introduced reforms concerning the ownership structure of banks, and permitted foreign banks and agencies to participate in certain areas of China's financial markets (Sun, 2020).

Categorised by ownership structures, there were, "5 state-owned banks, 3 policy banks, 12 joint-stock commercial banks, 134 city commercial banks, 17 private banks, 965 rural area financial institutions, 1,262 rural cooperative banks", and several foreign subsidiary banks in China in 2017 (Sun, 2020, p. 14). Among these, state-owned banks control the majority of the Chinese financial market. Before 2011 they possessed half



of the total assets of the Chinese banking system (Martin, 2012). With the emergence of private companies and other financial institutions, this number gradually dropped to around 40% in 2017 (Sun, 2020). Policy banks, rural banks and financial institutions are limited to provide services in certain specific areas, e.g., agriculture, imports, national investment, and rural areas. They do not provide loans for general enterprises. Joint-stock banks are mostly controlled by private capital, with the government only holding a limited number of shares. City commercial banks are owned by provincial and municipal governments. Both joint-stock banks and city commercial banks are crucial to SMEs' financing alongside the five state-owned banks. Private banks have usually developed from internet banks, which target internet users and provide small deposits and loans. Although foreign financial institutions have established service points in China, they seldom provide financing for Chinese SMEs. Generally, their customers are foreign companies with operations in China. In total, foreign banks only occupy 3% of the whole banking system, and therefore have very little influence on SME financing (Sun, 2020). The structure of the Chinese banking system ensures relatively low competition and there is low pressure for banks to try to attract SMEs.

Second, to avoid risks, banks are generally reluctant to offer loans to SMEs. On the one hand, compared to large companies that face more pressure of supervision, i.e., regulation by the China Securities Regulatory Commission (CSRC), few SMEs run their businesses in a fully legitimate manner. Consequently, there is always the risk of SMEs being abruptly shut down. Also, few SMEs have positive credit records and there is little possibility for them to find robust guarantees, from large successful companies, SOEs or local governments. Finally, they also typically do not have sufficient fixed assets to act as collateral, given that many small companies rent their land, buildings and equipment rather than owning them. In general, SMEs therefore often act as guarantors for one another when they are seeking loans from the bank. Take Company G as an example. Company G has guaranteed the loans of two nearby companies, Company I and Company J, from a joint-stock commercial bank in 2014 and 2015 respectively. Both companies were required to repay the loans and interest no later than 2016, otherwise, the bank was entitled to ask Company G to pay for the credit. At the end of 2016, neither Company I nor J could repay due to their poor financial situations. Company G could also not afford to pay back the two companies' debts. The bank

charged Company I and Company G, and Company J and Company G for the default payments respectively. In 2017, when Company G tried to get loans to upgrade its sewage system, it did not pass the qualification review since the two lawsuits arising from the above situation had damaged its credit record. In this case, all three companies are not eligible to apply for new loans until they pay back the previous loans and their poor credit history will continue to affect their ability to secure future loans regardless of their profitability.

Banks themselves are under pressure from both domestic regulation and the capital adequacy requirements of the Basel Accord (Malhotra et al., 2007). According to this study's participants, SMEs are highly vulnerable to financial risks. There are an array of factors that could trigger the failure of their companies including, for example, the fluctuation of raw material prices, temporary cash-flow problems, and changing government policies which might require large expenditure. In comparison to granting credit to SMEs, banks favour large companies and SOEs. The government has mandated that all banks should avoid bad debt, even the five state-owned banks, as too much bad debt negatively affects the performance of banks and therefore also the promotion prospects of bank presidents.

Third, the interest rate in China is not set by the market, and instead is under the strict control of the Chinese government. Although there has been a gradual liberalisation of interest rates since the 1990s and the People's Bank of China (PBoC) has abolished the ceilings and floors of the deposit and lending rates, so far these measures have only resulted in a slight adjustment of these rates (Ma and He, 2020). The PBoC issues a benchmark rate, which is the base rate that China's banks use as a reference to set their deposit and lending rates (Ma and He, 2020). The mini liberalisation of the interest rate reflects Chinese financial market reform. However, China's banks have limited autonomy and no real independence from government. In fact, they are still obliged to rigidly conform with the Chinese government's wishes.

It has been suggested that the mandated interest rate exacerbates the financing difficulties of SMEs (Malhotra et al., 2007) and that because of the lending rate caps, there are no benefits for banks to provide credit to SMEs. As a result, banks are more

likely to lend to SOEs and large companies, given their lower risks of default. However, the total liberalisation of the interest rate would also be unlikely to solve SMEs' problems. This is because if the market fully sets the interest rate, the deposit rate would increase. Although the expansion of the deposit rate would increase the pool of money available, the money would be allocated to SOEs rather than SMEs. Therefore, it can be concluded that governmental control over the interest rate is one of the reasons for the financing difficulties of SMEs, but it is not the decisive factor. Equally important, if not more important, is the fact that SOEs are leviathans that crowd SMEs out of bank financing.

Even though SMEs provide more GDP, tax revenue, and employment to China's national economy, SOEs dominate the 'commanding heights' of the Chinese economy. According to the Constitution (National People's Congress, 2018b, chaps 1, Article 6), China remains in the primary stage of socialism, which determines that the basic economic system should be centred around public ownership, and that other forms of ownership should develop alongside public ownership. Because of this, the state guarantees the ongoing primacy of public ownership and regards the state-owned economy as the dominant power within China's socialist economic system (National People's Congress, 2018b, chaps 1, Article 7). Consequently, financial and political resources are invested in SOEs rather than SMEs.

In comparison to SMEs, SOEs are generally extremely large companies and some even have multinational operations. They enjoy preferential policies and financial advantages that SMEs cannot obtain. Backed by the government, SOEs seldom worry about access to credit. Even SOEs with a high debt ratio, that are not profitable and cannot repay their loans, still manage to get credit granted to them. Due to government backing, they are regarded as low risk borrowers and enjoy very low interest rates. In contrast, the requirements and standard of assessment for SMEs are much higher. According to a recent report (Unirule Institute of Economics, 2015, p. 5), the average interest rate for SOEs is 1.6%, whereas the regular credit rate for the private sector is 4.68%. In terms of rent arrears, from 2001 to 2013, SOEs failed to pay RMB 850 billion, excluding RMB 394 billion of government subsidy. This number reached RMB 1.4 trillion in 2011 (Unirule Institute of Economics, 2015, p. 186). From this, it can be seen

that SOEs are often able to make use of land resources without paying any expenses. In contrast, for private companies, according to the participants, it is impossible for them to occupy land resources for free.

*“It is too easy to get loans [for SOEs]. SOEs are not 100% companies. Instead, they can be viewed as quasi-government departments. Both state-owned banks and local commercial banks are willing to grant loans to SOEs since there is no risk involved. If SOEs cannot repay the loan before it’s due, the bank would either grant another loan to them or write off the debt. The leaders of the bank or higher-level leaders will not blame the bank’s managers for the write-off. Also, one can never predict when an SOE leader will become a leader of a local government or a local bank.” (Owner, Company F)*

Apart from the main financing channel of bank loans, the stock market and bond market are complementary funding sources for SOEs. The stock market in China was first designed to allow SOEs to raise funds (Allen et al., 2020). Until 2009, more than 50% of all listed companies were SOEs (Witt and Redding, 2012). This number had decreased to 37.9% by 2014 (Allen et al., 2020). The bond market shares the same logic as the stock market. It is extremely difficult for SMEs to get access to these two markets, especially for manufacturing SMEs that seldom have intellectual property or other attractive assets. However, the most important barrier is that few SMEs can meet the minimum initial public offering requirements of the A-share market, the Growth Enterprise Market (GEM), the Shanghai Stock Exchange Science and Technology Innovation Board (STAR Market) or even the SME Board.

Take the GEM as an example. The entry requirements of the GEM Board are the lowest among the four markets. For a company which plans to apply to list on the GEM Board it must meet the following requirements, “its post-IPO share capital is no less than RMB 30 million; the public offered shares account for no less than twenty-five percent of its total amount of shares; or ten percent if its total share capital exceeds RMB 400 million” (Shenzhen Stock Exchange, 2020, chaps 2, Section 1, Article 2.1.1). In terms of requirements regarding market capitalisation and financial status, the company should meet one of the following criteria, “(1) Its net profit has been positive for the most

recent two years with the accumulated net profit no less than RMB 50 million; (2) Its estimated market capitalization is no less than RMB 1 billion, and its net profit for the most recent year is positive with the operating income no less than RMB 100 million; (3) Its estimated market capitalization is no less than RMB 5 billion, and its operating income for the most recent year is no less than RMB 300 million” (Shenzhen Stock Exchange, 2020, chaps 2, Section 1, Article 2.1.2).

Apart from the entry prerequisites, there are also profitability requirements before issuing securities. Specifically, the organisation should “operate for three or more consecutive years; it has made profits for the past two consecutive years, and its cumulative net profit made in the past two years is not less than RMB 10 million; or it has made profits in the past year, and its revenue in the past year is not less than RMB 50 million; its net assets are not less than RMB 20 million, without any uncovered loss, at the end of the most recently completed period; the total amount of capital stock after the public offering is not less than RMB 30 million” (China Securities Regulatory Commissions, 2018, chaps 2, Article 11).

Given these requirements it is nearly impossible for SME manufacturers to meet the minimum registration standard and the lowest performance requirement. On the one hand, the income criterion for SMEs is no more than RMB 400 million, which cannot meet the last two criteria without profit-making. On the other hand, few manufacturing SMEs can make a profit of RMB 50 million a year. Furthermore, due to the fluctuating impact of the cost of raw materials, SMEs cannot guarantee to be profitable in consecutive years. These problems are illustrated by the fact that of the six interviewed companies, none of them could meet either the registration or the performance requirements of the GEM.

The central government is well-aware of the financing difficulties facing SMEs. Following reforms to the stock market in 2020, profit requirements have been cancelled for the GEM (China Securities Regulatory Commissions, 2020). The cancellation of operating performance prerequisites has boosted the financing efficiency of companies that meet the minimum entry requirements. However, most SMEs still cannot raise money from the four main stock markets, given that the lowest standard, i.e., the

requirements of the GEM (Shenzhen Stock Exchange, 2020, secs 1, Article 2.1.1 and Article 2.1.2), remain too high for them. Although there is a new Third-board which has no operating performance requirements, few investors choose to enter the new Third-board market. The low entry requirements bring low liquidity, which means SMEs are unlikely to be able to raise money through this market.

The bond market is supposed to be an alternative for unlisted SMEs to alleviate their financial pressure. However, according to the OECD, SMEs frequently have difficulties in meeting the high standards and affording the expensive costs involved in bond issuance (Ayyagari et al., 2017). Chinese manufacturing SMEs have also experienced such challenges in the context of the Chinese bond market. In China, enterprises can issue bonds through the stock exchanges or the National Equities Exchange and Quotations (“NEEQ”) (China Securities Regulatory Commission, 2021, chaps 1, Article 2). If a company chooses to publicly offer their bonds, the requirements are higher than if they do so privately. The general requirement set by the Securities Law is that, “average distributable profits in the last three years are sufficient for payment of one-year interest on the corporate bonds” (Standing Committee of the National People’s Congress, 2019, chaps 2, Article 15). More specifically, the company is required to meet the below articles:

- “1) The issuer has no obligations outstanding or deferred repayment of principal and payment of interest thereon in the last three years,
- 2) The issuer’s average distributable profits in the last three years are not less than 1.5 time one-year interest on the bonds,
- 3) The issuer’s net assets in the most recent period are generally not less than 25 billion yuan,
- 4) The issuer offers bonds to the public for not less than three times accumulatively in the most recent 36 months, and the amount of bonds issued is not less than 10 billion yuan
- 5) Other conditions as set out by the CSRC for the purpose of protecting investors.

Publicly offered corporate bonds that fail to reach the standards prescribed in the preceding paragraph may only be subscribed for by professional investors”

(China Securities Regulatory Commission, 2021, chaps 3, Section 1, Article 16).

The stock exchange, e.g., the Shanghai Stock Exchange, has additional quality requirements for the listing of corporate bonds, which include that at the end of the most recent period the net assets of the issuer should be no less than RMB 500 million, and the debt to asset ratio should be no more than 75% (Shanghai Stock Exchange, 2018).

For SMEs, the above requirements are obviously too high to reach. Therefore, the most practical channel for SMEs is not to list publicly but rather through a private offering. Take the Shanghai Stock Exchange again as an example. For private offerings there are not any rules on corporate net assets or profitability (Shanghai Stock Exchange, 2015). The issuer only has to obey relevant regulations and to make sure its disclosure information is truthful, accurate, and complete. After the issuer has submitted the application jointly with the necessary authentication files provided by approved agencies, e.g., a law firm, an audit firm, and a ratings agency, the stock exchange will review the files and decide whether the company is qualified to offer to no more than 200 licensed investors. However, the reality of the situation is that few investors choose to buy bonds issued by private SMEs even if they have passed the assessment of the stock exchange. Instead, investors would rather purchase the bonds issued by the government or SOEs. Similar to the stock market, there are hidden costs for bond issuance, e.g., the payment to the law firm, audit firm, and rating agency. Once they have considered the high costs and limited likely returns, SMEs seldom attempt to issue bonds to access finance.

*“If I am an investor, I would not purchase the bond of a small or medium-sized company. There are several other safer ways to invest, such as shares of large companies or SOEs, government bonds, or the bonds of local SOEs. They are robustly backed either by the central government or the local government and they are stronger and more trusted. There is no reason for me to choose bonds issued by SMEs that are generally high risk and face an uncertain future. But from my perspective as an owner of a small company,*

*I feel despondent about this situation, as SMEs like us can barely raise money from the bond market.” (Owner, Company F)*

Other than financial institutions, government support could be one of the most effective external channels for SMEs to solve their financial difficulties. The “visible hand” of the Chinese government is a powerful tool to control the national economy (Jin et al., 2018, p. 2). The government can establish favourable policies for SMEs, such as tax cuts and special loans. Alternatively, SMEs could enjoy the same preferential treatment as SOEs, including, for example, direct fiscal subsidies and indirect financial support.

However, in practice, few SMEs have received effective government help to solve their financial problems. From the results of the six cases, only Company H reported that it has received direct government funds due to the subsidies government provides to the high-tech industry. The other five enterprises have never received any direct government subsidies. This result shows a common fact that government subsidy schemes tend not to focus on traditional manufacturing industries. The release of the ‘*Made-in-China 2025*’ plan in 2015 set out a vision for the future of the Chinese manufacturing industry (L. Li, 2018). Emerging industries that have been identified as occupying the vanguard of the transformation that the plan envisages have attracted significant government subsidies. Industries including alternative materials, energy-saving vehicles, high-tech electrical equipment, biomedical technology, cutting-edge medical apparatus, and IT services are receiving the most direct and indirect government support under the plan, whereas traditional manufacturing companies which heavily depend on non-renewable resources and low labour costs are not only not being supported but are actually identified in the plan as targets to be phased out. This explains why Company H has enjoyed direct subsidy support while the other five companies have not.

Although all six companies have enjoyed tax refund policies, the benefits that such policies have provided have been too small to resolve their financial distress. Furthermore, if all SMEs enjoy the same tax cuts, industry prices soon drop due to the extremely competitive environment. Tax breaks also make no sense to solve SMEs’ financial problems. Take Company E, Company F, and Company G as examples.



Company E and Company F are in the agricultural industry. Based on the agricultural value-added tax refund policy (Ministry of Finance and State Taxation Administration, 2018, Article 3), instead of paying a tax rate of 16% on agricultural products, the companies pay a reduced rate of 12%. However, according to interviews of the managers of the two companies, both have negative attitudes to the tax reduction policy.

*“Yes, there are tax cuts on agricultural-related products. However, the cuts are far too small to cover our financial difficulties. We cannot expect the tax cuts to bring profit.”*

*(Manager, Company E, the textile factory)*

*“The tax cuts are useless, especially for companies in the same industry. It is not only ourselves, but all companies can enjoy the preferential policy. This means that the cost and price of flour have decreased across the board. Nothing has changed.”* (Owner, Company F, the Flour Mill)

The same situation applies to Company G, which is able to enjoy a substantial tax break, but where the impact is limited as it has simply resulted in a decrease in sales prices. Each month, Company G immediately claims back half of the value-added tax it has paid, given that more than 80% of its raw material is paper recovered during the manufacturing process and there is a tax break for using recovered pulp (Ministry of Finance and State Taxation Administration, 2015, sec. 3.4 of the Catalogue). However, for the paper industry, it is common to use recovered paper and recovered pulp as raw materials rather than virgin pulp. The cost of virgin pulp is expensive due to the long time it takes trees to grow. According to the owner of Company G, almost all companies meet the requirements in the paper industry. Therefore, there is no advantage when everyone enjoys the same preferential policy within the industry.

As discussed previously, Company E employs more than 10 disabled staff (the manager could not confirm the exact number of disabled employees due to the suspension of production when the interview happened), which allows the company to enjoy a tax refund (State Taxation Administration, 2016, Article 1). For each disabled employee, Company E receives a tax refund of no more than four times the lowest local wage.

However, the preferential policy for hiring disabled staff does little to alleviate the company's financial distress.

*“The local lowest wage is around RMB 1700. I therefore get a tax return of no more than RMB 10,000 per month, which is a tiny part of my monthly expenses.” (Owner, Company E, the textile factory)*

Furthermore, the situation is worsened by the fact that there is a significant difference between the tax rates for SOEs and private companies, which are 21.9% and 23.8% respectively (Unirule Institute of Economics, 2015, p. 80). This allows SOEs to sell the same products, i.e., the same condition and quality, at a lower price, or SOEs can sell higher quality products at the same price as private SMEs. This situation distorts competition and further erodes SMEs' profitability.

As for SME special loans programmes and indirect intervention from the government, according to the participants, local banks may issue limited or short-term credit under the pressure of higher-level banks or the local government. However, even when the head offices of state-owned banks and commercial banks have granted and increased lending quotas for SMEs, local branches tend not to issue more credit to SMEs due to their internal risk management.

*“Government can influence banks' decisions on whether to grant loans for us or not, but it can't decide how much the banks give us. If we can't repay the loans within the agreed period, the government would not be responsible for the default. It is the leader of the bank and the loan officer who would be blamed and punished. Therefore, local banks are extremely cautious about granting loans to SMEs.” (Owner, Company F, the Flour Mill)*

Restricted loans are an institutional problem due to the poor credit ratings of traditional manufacturing SMEs and are not linked to the volume of government funds provided to banks. Banks can easily deal with government requirements of granting more loans to SMEs. For instance, the special loans scheme for SMEs favours SMEs in the industries prioritised in the 'Made-in-China 2025' plan and SMEs that are integral parts

of the supply chain. Therefore, the future prosperity of high-tech SMEs is more attractive to lenders than traditional manufacturing SMEs. On the one hand, the prospects of the companies themselves depend on the firms' guarantees of the loans. On the other hand, the government plays the same role as for the SOEs' loans. The long-term development of the companies promises more tax revenue and stable jobs in the future. As a result, local governments are more likely to help local SMEs that have a bright future. Direct subsidies and the possible guarantee of the government add value to high-tech SMEs, which means that they have a high possibility of passing the loan assessment process. While for traditional SMEs, they receive neither government subsidies nor the loan guarantee from the government. The high likelihood of being phased out in the future further undermines banks' confidence about traditional manufacturing SMEs' ability to successfully repay loans. Therefore, the special loans scheme for SMEs cannot save traditional manufacturing SMEs from their financial troubles.

The last resort is to raise money through informal private loans. Unlike regular funding methods that have no side effects, peer-to-peer (P2P) lending is a double-edge sword to SMEs in financial distress. The short-term loans are essential in helping SMEs to temporarily handle urgent problems, i.e., cash flow problems. However, private loans can bring more serious distress. One of the typical characteristics of manufacturing SMEs is that they generally receive delayed payments for the products they sell and sometimes have to wait for a period of months before the purchaser settles their invoice. SMEs always face difficulties in claiming back the money. Therefore, it is common for most SMEs to experience cash flow problems. The standard solutions are either neighbouring companies lend to one another or private lending.

In this research, all of the interviewed companies have applied for private bridging loans. They have requested short-term loans either for supplies or to pay wages. If there is another option, for instance, bank credit, no firm would choose private lending due to the high interest rates. In general, the lending rate for private loans can be three times higher than that of bank loans (Lam and Liu, 2020). Based on the interviews, the one-year interest rate of commercial banks is no more than 4%. Before the revision to the rules concerning private lending in 2020, an annual interest rate of 24% was the legally

permitted figure which would be supported by courts (Supreme People's Court, 2015, Article 26). For loan contracts with an annual interest rate between 24% to 36%, the court neither supported nor opposed these contracts (Supreme People's Court, 2015, Article 26). Only when the annual interest rate exceeded 36%, did courts rule that interest over that rate should be null and void (Supreme People's Court, 2015, Article 26). In 2020, this article was revised to state, "Where the lender requests the borrower's payment of interest at the interest rate agreed upon in the contract, the people's court shall support the request, except the case that the interest rate agreed upon by both parties exceed four times the LPR for one-year loan when the contract is concluded" (Supreme People's Court, 2020b, Article 20).

Although private lending can mitigate short-term financial pressure, it brings more serious problems when contracts become due with companies often not able to afford to pay the interest of informal private loans. As a result, many companies become insolvent under financial pressure.

*"Private lending from shadow banks is common among owners of SMEs. Our first option is definitely to get a loan from the bank. No entrepreneur would prefer high interest if he or she had access to formal financial institutions." (Manager, Company E)*

*"There is another small manufacturing enterprise in the neighbourhood. It went into insolvency due to its negative cash flow two years ago. At first, he [the owner of the company] was granted loans from the local commercial bank, bank A. The project which he used the loan to fund did not meet his expectations, and that meant he was unable to repay the loan before the deadline. The owner subsequently mortgaged equipment and movable properties like cars to another local commercial bank, bank B, so that he could repay bank A's loans. Because of stricter environmental protection policies, his company needed to invest more to upgrade its equipment. He therefore went back to bank A for another loan. Fortunately, because he had an acceptable credit record this meant that bank A was willing to offer him more credit. Three months after his investment in the sewage system, his mortgage from bank B became due. Bank B promised to grant him another loan as soon as he repaid the previous loan. However,*

*because of the bad situation facing his industry, his company could not afford to repay the loan. Having borrowed from friends and using private lending with a high interest rate, he wished to get through what he thought was a temporary tough situation. Nevertheless, the bridging loan was not effective and because of that bank B decided not to approve further credit after their loan was repaid. This is because the PBoC has ordered commercial banks to control the amount and quality of their loans, and, as a result, commercial banks have started to more rigorously scrutinise new lending projects. The failure of the bridging loan therefore led to a domino effect, where the company was unable to pay off the loan from bank A as well as repay the owner's friends and other private lenders. Due to these circumstances, the company couldn't pay wages and insurance and finally declared insolvency.” (Owner, Company H)*

## **7.5 Cultural System**

This section explains how China's cultural institutions influence SME CSR decision-making. Similar to the extant literature on SME CSR (Lee et al., 2016), this current study supports the fact that owners-managers play the decisive role in the decision-making process of SME CSR. Furthermore, in addition to the influence of external political and economic institutional factors on CSR, it will be shown that cultural institutions affect the inner contexts of owner-managers, e.g., their personal values, moral beliefs, knowledge, cognition, and personalities, and thus influence their comprehension processes and moral reasoning (Joos, 2019).

The first part below, through the lens of religion and traditional culture, explains why normative power and proximity are significant to the identification of stakeholder salience. The second part demonstrates the results of how educational institutions influence SME CSR behaviours and answers why most employees lack utilitarian power to affect CSR decisions. The final part interprets the research finding concerning why a lack of knowledge and CSR awareness are commonly regarded as barriers to CSR.

### 7.5.1 Cultural and Social Norms

Various religious denominations are accepted in China, given that citizens enjoy the freedom of religious belief according to the Constitution (National People's Congress, 2018a, chaps 2, Article 36). Religious texts, e.g., the Bible and the Qur'an, and what the religions, e.g., Buddhism and Daoism, advocate, explicitly impose ethical expectations on specific business behaviours (Brammer et al., 2007; Keown, 2007; Cui et al., 2015; Miller, 2017). In this research, the owner of Company F is Muslim who as a result believes in Allah. He noted that Islam to some extent influences his personal beliefs and some ethical behaviours.

*“Islamic education has affected the way I make corporate decisions. And my personal comprehension of the Qur'an sets a moral bottom line, which influences me whenever I make CSR decisions. I am proud to say that my company has never been punished by the EPB.” (Owner, Company F)*

However, within the Chinese institutional context, only a limited percentage of owner-managers have religious beliefs. One reason for this is, to get better access to political resources, most owners and managers have joined the CPC and CPC members are prohibited from any religious belief. If a party member holds a religious belief, they will firstly receive further education that aims to get them to abandon that belief, otherwise they will be expelled from the party (CPC Central Committee, 2018, Article 62). In this research, apart from the owner of Company F, the other five owner-managers are all members of the CPC. The psychological effect of religiously inspired moral values thus has little impact on them.

Compared to religious beliefs, traditional Chinese culture significantly affects owner-managers' ethical and legal responsibility practices. Confucianism has dominated Chinese culture since the Han dynasty (Low and Ang, 2012). It influences how Chinese people should behave and how individuals can become a 'junzi' through self-cultivation (Wang and Juslin, 2009). Based on Confucian values, a 'junzi' (gentleman) is a model individual who possesses the collective virtues of Confucianism and behaves according to these virtues throughout his life (Ip, 2009b). A 'junzi' is expected to show 'ren' (humanity/righteousness) when dealing with daily affairs (Song and Jiao, 2018).

Humanity and righteousness are therefore the necessary characteristics of a 'junzi' (Zhu and Yao, 2008). Confucian culture is closely related to the concept of CSR, in which a gentleman is required to be benevolent to others, to be kind to nature, and to think about the consequence of one's actions to the public and the environment (Low and Ang, 2012).

However, from the interview results, it is apparent that the philosophy of Confucius does not guide business ethics in Shandong, which is where Confucius was born and is therefore the cradle of Confucianism. When asked to what extent Confucianism affects their CSR decisions, the owner-managers from five of the interviewed companies stated that it has no effect. The only exception was the owner of Company H. Given this, the requirement of being a 'junzi' mainly does not influence the companies' decisions about discharging polluted water or paying for overtime working.

Nevertheless, Confucianism does have a profound influence on the identification of stakeholders and affects the prioritisation of proximate stakeholders' claims. The reason why Confucianism was widely accepted in ancient China was due to its advocacy of the subordinate relationship between subject and ruler and the idea of structured hierarchical relationships between the government and its subjects persists to the present day (Hwang, 1999). Specifically, Confucianism states that commoners must be loyal to the ruler (Wang and Juslin, 2009), a notion which has gradually turned into "blind submission" (Hwang, 1999, p. 181). Therefore, Chinese people grow up strongly influenced by the concept of loyalty, which explains why the owner-managers conform to the government's requirements above and beyond the coercive power and utilitarian power of the government.

As well as loyalty, another norm generated by Confucianism is filial piety (Hwang, 1999; Li, 2011; Yu-wei, 2021). Filial piety forms strong family ties, which radiate from one's immediate family to people who live in the same community and who share kinship ties (Chwee Huat, 1989). Such family and community relationships explain why the owner-managers regard the community in which their companies are located and where they and their employees come from as salient. Indeed, the normative power has become a culturally coercive isomorphism to force the owner-managers to maintain

their reputations within their surrounding areas. This in turn provides an explanation for why owner-managers do not recognise the community as salient when there is a psychological distance between them and the communities in which their companies are located, e.g., when an owner establishes his company away from his hometown.

Moreover, the example of providing employee holiday benefits is the result of cultural and social norms. Specifically, this behaviour's primary source is SMEs seeking to imitate government organisations and SOEs. With salary reform of the fixed-wage system, these organisations started to provide holiday bonus welfare (Lee, 2000) and organisations that lack clear aims themselves tend to imitate the actions of more successful organisations (DiMaggio and Powell, 1983). Therefore, when all companies model similar behaviour within Chinese society, holiday welfare becomes a taken-for-granted custom and thus transforms into a culturally coercive pressure for SMEs. Consequently, regardless of their financial constraints, this traditional custom pushes SMEs to provide extra benefits during traditional Chinese holidays, such as the Mid-autumn Festival and the Spring Festival.

*“Even if the company is in financial distress, a small bag of rice represents the benevolence of the management. I cannot let the employees return home without any holiday goods.” (Owner, Company E)*

### **7.5.2 Education and Human Resources**

According to the interviews, one of the main barriers to SME CSR is the lack of management knowledge and CSR awareness. This is strongly influenced by the educational level of owner-managers and their management team members. Apart from the owner of Company H, who has a bachelor's degree, the highest educational qualification of the other owner-managers is a high school degree. Although all owners undertake management training courses once or twice a year, their management skills and comprehension of the market are far lower than professional managers who have graduated from higher education.

For the rest of the management team members, with the exception of a few managers who have a bachelor's degree, most senior and mid-level managers in the interviewed



SMEs only graduated from high school. The one exception is Company H where all management team members have undertaken postgraduate study. A higher degree allows owner-managers to better solve problems with more sophisticated management skills and to have a greater understanding of ethical values. They are aware of the importance of skilful employees and how to achieve the sustainable development of their company.

The different educational background of the owners has a significant influence on their companies. The managers of Company E, Company F, and Company G have always been the owners of their companies. Only Company H has recruited a professional manager with a high salary. The owner of Company H, who has a good educational background himself, is aware of the importance of professional managers, skilful employees, and how they help achieve the sustainable development of the company.

For Company C and Company D, although there seems to be a separation of ownership and control, the owner in fact makes all major corporate strategy and CSR decisions. Managers in the two companies are partially empowered, but the limited power they possess is over routine matters. Their jobs are to maintain the efficiency of the companies, but they have no power to make final decisions about investment or CSR activities. In contrast to the other five SMEs, the manager of Company H is at the helm of most routine matters and of setting targets for the company, which allows him to have more discretion over corporate strategy. The owner typically only wields his power through supervising the management team. The only exception concerns critical events which impact the survival of the firm. This has helped Company H to a large extent take more social responsibilities than the other companies.

*“I am acutely aware that I am not well-educated compared to managers that I have hired, and that they are more professional and knowledgeable than me. The company can never count on a single person to reach the goal of long-term development. My managers have graduated from various national key universities. They are skilful in analysing market trends, calculating and cutting costs, and managing interrelations between staff. I am delighted to leave daily matters to them and enjoy life.” (Owner, Company H)*

The owner's insight led him to hire an external manager. According to the owner and the employees, the manager not only brings Company H his internal management experience but has also helped establish clear and detailed goals. In the other companies' situations, where they lack a professional manager, the companies to a large extent must depend on the owner.

*“Our owner is not an expert in the textile field. Before he became the owner of this factory, he was the owner of a construction company that specialised in making concrete. Honestly speaking, he has little experience in the operation of the textile industry. During the earlier stages of this company, the management was an extreme mess. Some of the employees stole dyestuff and raw materials and then sold them. The former manager who was in charge of the warehouse intentionally damaged the dye press machines and cheated the owner. He told the owner that the machines were damaged and couldn't be used and that the owner therefore needed to buy new machines. Then, he repaired the old machines and sold them at a high price.”*  
(Employee B, Company E)

From the above interview with an employee of Company E, it is clear that the company has had trouble with its asset management. According to the interview results, the owner is unfamiliar about the need for clear rules about the purchase of equipment, the review of purchasing plans, and the maintenance of equipment. In addition, the owner has limited knowledge about strategic management and crisis management. He only focuses on the immediate period rather than on future development. Therefore, the company is always in an emergency and thus is constantly firefighting. For example, it was only when the local EPB issued the notice to temporarily shut down given the inadequate protection of water resources that the owner started to set up the sewage system. Without clear objectives, employees are unable to accurately predict the future of the company. In addition, this means that the company has difficulties in paying salaries on time and more and more employees have been shirking their responsibilities.

*“Some of the older employees loaf around when they are supposed to be hard-working. If we are assigned the same amount of work in the morning, I might finish before the*

*end of the day. In contrast, older colleagues would prefer to chat in the warehouse and to take two or three days to accomplish the task, rather than efficiently completing it within one day.” (Employee B, Company E)*

Moreover, poor staff management creates a dilemma for the company. Most employees that shirk work have worked for the company since before its acquisition by the current owner. Due to wage arrears and their early contributions to the company, the owner feels guilty about dismissing these employees. However, without more available positions, the company is unable to recruit younger staff. In addition, even if a new job is advertised, few people would choose to work in a company with a poor reputation. Candidates are also afraid of not getting paid like the current employees. Thus, Company E is stuck in a very challenging position.

*“They are too old to find other jobs if they are laid off. I would be morally blamed for dismissing them since they have to earn money to support their parents and children.” (Owner, Company E)*

Although Company F and Company G also suffer from deficiencies in management expertise, the owners of the two companies are masters in their fields. In contrast to the owner of Company E, they are the founders of their businesses. Their experience in the grain industry and the paper industry respectively guarantee less cheating by their employees. They are also experts in making rules and efficiently using current resources to achieve short-term goals. However, their shortage of professional managers restricts the further development of their businesses and their implementation of advanced CSR practices.

Limited management expertise results in disorganised management. Although both companies are diligent and are good at copying from others’ experiences, neither can conduct market analysis nor formulate medium- or long-term plans for their companies. Their investment in overlapping industries also leads to a lower market share and low profits. The lack of management expertise also causes them to neglect the significance of their employees and innovation. The failure to motivate their employees and to conduct research on core technologies inhibits the further development of these SMEs.

One of the reasons why the owner of Company F agreed to be interviewed was because of his interest in CSR. His abundant practical experience has helped the company to transform from the survival phase to the emerging growth stage. According to the owner, the company's cash flow has been positive and relatively steady. Products of Company F have also already started to dominate the local area. The owner has been seeking opportunities to expand his business and to achieve a higher level of social responsibilities.

*“My company has come to a turning point. We have been continuously making profits for years without expanding the business. I am not sure whether to merge with other flour factories in the local city and monopolise the industry, or to establish new factories in surrounding cities. Friends of mine, who are also business owners, have asked me to invest in their companies. Due to my large disposable income, I have taken hasty decisions to meet their requests without conducting detailed investigations. This proves that people should be cautious about the investments they make. I should have evaluated the potential risks and avoided investing based on my emotions, especially investing huge amounts of money into an unfamiliar field. Thus, after my previous failures, I am now choosing to develop my flour mill rather than investing in uncharted territory.” (Owner, Company F)*

Company G has had an almost identical experience to Company F. Its gradually increasing cash flow and market share have helped it to increase its profits, which has motivated the owner of Company G to expand his business. Having realised that his competitors have already expanded in scale, the owner decided to increase his operations to include three workshops, but he made this decision without conducting systematic evaluation of the market. Unfortunately, the following year, the oversaturated paper market led to an increase in the price of raw materials. This was followed by the falling prices of wrapping paper and corrugated fiberboard.

Company G's case indicates that when an owner lacks managerial experience they can act in a short-sighted manner. Firstly, instead of recruiting sufficient employees to comply with the labour law, the owner of Company G opted to maximise production

through his expansion plan. His weak consciousness concerning protecting employees' rights has not changed following the shift from survival to emerging growth and he still focuses more on short-term interests rather than the longer-term development of his business. Moreover, although the owner understands the paper market's trends and his company's resources, he fails to evaluate his potential market prospects and the Chinese macroeconomy. If there were a professional manager at the company considering these details, the company would likely develop in a more sustainable manner.

The other five companies' failures reflect a general fact among Chinese traditional manufacturing SMEs, i.e., employees including most senior managers are not well-educated. This is due to the lag of education policy and the poor economic situation that existed in decades gone by. In this research, the average age of employees is more than 43 years old. If the admission age for elementary school is 6 to 8 years old, this means that the average elementary enrolment year for these employees was before 1983. This was before China first established its nine-year compulsory education policy in 1986 (Rozelle et al., 2012). In fact it was not until 2000 that the compulsory education policy began to cover primary education (Yanqing, 2012). This was because at that time there was not enough funding to support education, and this meant that many of the employees dropped out of school in their teenage years (Rozelle et al., 2012).

On the one hand, the under-educated generations are generally unable to provide critical opinions on the development of their companies. On the other hand, employees who have only graduated from middle school or even primary school have difficulties protecting themselves through the law. This is because they are unfamiliar with the Labour Law and as a result HR can easily deceive them on issues such as signing the labour contract. When there are wage arrears, uneducated employees are inclined to keep silent. In addition, it is common that some younger employees prefer to receive more cash rather than for the company to pay social insurance for them. They consider the time when they will need medical insurance and endowment insurance to be too far away and they focus on the here-and-now rather than the distant future.

*“Apart from the owner and me, no staff in this company have undertaken higher education. Most of them are 40 years old and only graduated from primary school.”*  
(Manager, Company C)

*“I know nothing about the specific rules of the Labour Law. It might be complicated and expensive for me to file a lawsuit against the company.”* (Employee D, Company G)

A low educational level also prevents employees from safeguarding their health. Although companies distribute masks to employees according to safe production rules, some employees refuse to wear masks in the workshop. They feel uncomfortable wearing masks and they believe that they are protected by having yearly health check-ups. Therefore, they neglect the potential harm to their health. Also, according to the manager, employees can take safety products home with them if they “save” them during working time.

*“Wearing a mask makes me feel that it is hard to breathe when I am working.”*  
(Employee A, Company C)

*“It is too hot to wear a mask in summer.”* (Employee D, Company D)

Furthermore, Chinese traditional culture intertwines with education and dominates the way Chinese people act. Stemming from Confucianism, Chinese education encourages group harmony and conflict-free interpersonal relationships (Haron et al., 2015). In a highly institutionally collectivist context, Chinese people tend to believe that individuals are interdependent with their organisations and should prioritise loyalty to the group (Brewer and Venaik, 2011; Hongyu et al., 2012). Employees pay a lot of attention to managing their ‘guanxi’, i.e., the long-term relationships between themselves and their companies and superiors (Kang et al., 2017). This echoes the relationships between colleagues at law enforcement agencies (seen in the example of officials cooperating to disguise illegality). Chinese culture also suggests that tolerance is vital in maintaining positive human relations and social stability (Chwee Huat, 1989),

which is also another reason why the first choice of employees is generally to keep silent when there are labour conflicts.

*“We were told to maintain good relationships with classmates at school. As we have grown up, we have been educated to build a harmonious society.” (Employee A, Company E)*

Moreover, Confucianism underpins a diligent work ethic which is seen to be virtue in traditional Chinese culture (Kang et al., 2017) and devoting oneself to work is a signal of group loyalty (Lu et al., 2011). Overtime working is therefore seen to be equivalent to working hard, which is transfigured into a personal achievement. As a result, both owners and employees take overtime working for granted.

*“I had already forgotten that overtime working is illegal until you mentioned it. Everyone is accustomed to working overtime. It seems that the limit of working hours prescribed by the Labour Law has disappeared. Law enforcement agencies do not pay attention to this practice. And employees do not report it to the HRSSB.” (Manager, Company C)*

## **7.6 Conclusion**

Through the lens of NBSs, the reason why the Chinese government is regarded as the most salient stakeholder to SME CSR is explained as follows. First, government controls resources that SMEs need for survival. These resources comprise tangible resources, e.g., finance, land, water, and electricity, and intangible resources such as political resources and the approval of licenses (Zhou, 2007; Tang et al., 2014; Witt and Redding, 2014). They are indispensable resources that are crucial for the further development of firms. Restricted by low profitability, most investments into social responsibility activities depend on companies' external financing approaches. Bank loans are the most desirable funding method for SMEs (Ayyagari et al., 2017). However, SMEs are seldom successful in applying for sufficient loans to support their needs. This is due to the fact that few SMEs can pass the review procedures of banks' credit departments because they have insufficient collateral and guarantees (Wehinger, 2014; Y. Wang, 2016). The internal risk management of banks also forbids local branches to

offer credit to SMEs that operate in high-risk industries or those that are about to be phased out by the ongoing industrial revolution. Compared to bank loans, the entry requirements of the stock market and the bond market are too demanding for most SMEs. Only a few top SMEs can successfully raise money via issuing stock or corporate bonds. Furthermore, there is little direct financial resource allocation to SMEs and limited government support to help solve SMEs' financial distress. Although most SMEs enjoy tax refund policies, the tax reimbursements are usually inadequate to address SMEs' poor cash flow. And with the transformation of China's industrial structure, traditional SMEs will be faded out and high-tech manufacturing SMEs will lead the revolution (Lin et al., 2021). Therefore, the government has stopped allocating resources to obsolete companies. Instead, it is high-tech companies that are developing alternative energy or biomedical technology which receive direct government support. Nevertheless, if the local government offers more help, e.g., loan guarantees and preferential policy implementation, SMEs could be in much better financial conditions. To maintain or build their political connections, owner-managers respond positively to the government's CSR requirements.

Second, there is the coercive power granted by the law that forces SMEs to perform legal responsibilities. As the only officially approved authority to enforce the law and to be ultimately able to resort to violence, government, including its authorised departments which have the right to use force, is the organisation that owner-managers are most fearful of (Wang, 2014). In particular, all owner-managers are afraid of being put into jail. To avoid losing their freedom, owner-managers conform to the laws that are strictly enforced by law enforcement agencies. Finally, the third point is that Chinese people are educated to be loyal to their rulers and superiors (Chwee Huat, 1989; Hwang, 1999; Wang and Juslin, 2009; Kim and Moon, 2015; Hawes and Young, 2019). Confucianism has a highly significant continuing influence on Chinese culture and dominates the way that Chinese people think. Indeed, this ideology is inculcated into Chinese individuals from their early education onwards. Therefore, owner-managers feel that it is their responsibility to be subordinate to the government and to follow the government's orders.



In terms of employees, the current mode of state governance and the legal system does not protect their interests well. The promotion tournament model deters local HRSSBs from fully enforcing rules and regulations. There are also unreasonable legal arrangements relating to labour protection, i.e., the rules regarding arbitration. Besides, most employees are not well educated and therefore have little or no value as human resources. They create less value than mid-level managers and can be easily replaced by new staff. Thus, they have limited utilitarian resources to achieve power over the firm. Moreover, employees are also seriously influenced by Confucianism. Specifically, their thinking has been shaped to prioritise institutional collectivism, harmonious interpersonal relationships, and hard work (Wang and Juslin, 2009; Hongyu et al., 2012). Employees are supposed to have a strong team spirit and to believe that any damage to the reputation (face) of their company is prohibited (Phuong-Mai et al., 2005). Confucianism also emphasises that tolerance should be kept in mind in interpersonal relationships (Chwee Huat, 1989). Hence, employees seldom report their illegal treatment to the local HRSSB unless they have no other choice. In addition, overtime working is correlated with hard work, which is considered as a way for people to devote themselves to the company and the society. Illegal unpaid overtime is therefore concealed due to the supposed traditional virtue of hard work.

With respect to the community, filial piety, a concept advocated by Confucianism and which is generally accepted by the Chinese population, affects the spiritual distance between owner-managers and the community (Hwang, 1999; Li, 2011; Yu-wei, 2021). Owner-managers will meet the requirements of the community where they grew up and live. Kinship can also influence owner-managers' attitudes towards employee responsibility when employees come from the same village as the owner-manager. This point is demonstrated by the fact that owner-managers ignore the community's claims if their business was not founded in or near where they were born. Therefore, despite the normative power over the firm, the community has less utilitarian power to influence companies' CSR decisions.

The rationale for power overriding all other attributes is due to SMEs' lack of resources. Most Chinese manufacturing SMEs are at the bottom of the industrial chain, and their work is highly related to the processing of primary materials. Whether they can make a

profit largely depends on the price of raw materials. Hence, SMEs are vulnerable to market risks. Furthermore, their products are less competitive than those from high-tech companies and large companies. This situation guarantees that SMEs will only make limited profits and struggle to survive, let alone allow them to be in sufficient financial health to adopt higher social responsibility behaviours. In this regard, any stakeholder that can provide life-saving resources will be regarded as an extremely significant stakeholder. All other issues come far beneath the aim of survival. Thus, even though attributes like legitimacy, urgency, and proximity are significant to the identification of stakeholder salience, they are less important to the prioritisation of claims.

## **Chapter 8: Conclusion**

### **8.1 Introduction**

This chapter summarises and synthesises the key findings of the previous three chapters in order to achieve the study's research aims of enhancing our understanding of Chinese SME CSR, investigating various stakeholders' influence on SMEs' CSR decisions, and probing the factors that result in the failure of SME CSR in the Chinese institutional context. The first section reviews the research objectives and sub-research questions. Following this, the next section summarises the findings and provides an answer to the main research question concerning which barriers lead to the failure of SME CSR in China. The next section outlines the study's main contributions to SME CSR research and contextualises the MAW-1997 and the role of national institutions in influencing organisational behaviours. Finally, the chapter ends by discussing the limitations of the current research and possible avenues for future research.

### **8.2 Revisiting the Research Objectives and Research Questions**

Research objectives:

1. To examine SME owner-managers' attitudes and understandings of CSR.
2. To investigate SME CSR practices and the current level of SME CSR in China.
3. To explore motivations for CSR practices and obstacles to CSR adoption.
4. To examine the role of stakeholders in CSR implementation.
5. To investigate relevant attributes of stakeholder salience.
6. To evaluate the institutional factors that influence the identification and prioritisation of stakeholders and their claims.
7. To explore the role of Chinese national institutions in shaping or constraining CSR activities.

Sub-research questions:

1. How do SME owner-managers perceive and practice CSR in the Chinese institutional context?
2. Who and what really counts in the organisational field of Chinese SMEs?

3. Why is a particular stakeholder salient or not? Why is a specific stakeholder attribute significant or not?
4. How do China's political, financial and cultural systems influence SMEs' CSR decisions?

In a successful study, research objectives must be closely aligned with research questions. In the current research, the first sub-research question was designed to meet the first three objectives, which together fit with the first research aim of enhancing our understanding of Chinese SME CSR. Objectives 4 and 5 were met by answering the second sub-research question, and objective 6 is correlated to the third sub-research question. Both sub-research questions 2 and 3 intended to achieve the second research aim of investigating various stakeholders' influence on SMEs' CSR decisions. The last sub-research question served to achieve the last research objective. Furthermore, all four sub-research questions were designed to supplement the main research question of identifying which barriers contribute to the failure of SME CSR in China, which in turn was designed to underpin the last research aim of probing which factors result in the failure of SME CSR in the Chinese institutional context.

Regarding owner-managers' perceptions of SME CSR, most reported that they believe that the basic level of CSR includes generating profits, creating jobs, conforming to legislation, and contributing to social stability. Social stability is considered as the ultimate aim of social responsibility in China, for which the other three tasks provide a solid foundation. This is the key distinguishing feature that differentiates Chinese SME CSR from SME CSR in other contexts. Charity represents the higher level of CSR, which owner-managers will only perform when they have started to make significant profits or when they are required to meet the needs of powerful stakeholders.

In terms of how SMEs perform CSR in the Chinese context, this study has shown that overall performance is unsatisfactory, given that most CSR activities are either one-off or are merely designed to meet the government's rapidly evolving requirements. Most owner-managers do not regard CSR as a strategic tool to manage their business and they typically do not undertake CSR activities voluntarily. Therefore, SMEs in China only partially achieve the four levels of Carroll's CSR pyramid (1991). In terms of CSR

programmes with high costs, Chinese SMEs seldom undertake them unless there are urgent calls for them to do so from powerful stakeholders.

As for the motivations for CSR, apart from economic responsibility, it is the government that forces SMEs to undertake most of their legal responsibility measures and is also partially responsible for their philanthropic activities. While owner-manager's personal beliefs and their sense of morality, social and cultural norms, and reputational concerns motivate the adoption of ethical responsibility.

With respect to barriers, from the perspective of owner-managers, lack of CSR awareness, management knowledge, human resources, and financial resources comprise the major internal difficulties, whereas insufficient government support, i.e., lack of political resources, and frequently changing government policies are the main external obstacles for SME CSR.

Having contextualised the MAW-1997 in the field of Chinese SME CSR, it can be concluded that power is the most significant attribute and that it overrides the other three attributes in importance. Different categories of power rank in the following order in terms of their influence: coercive power, utilitarian power, and normative power. Legitimacy and proximity can affect the identification of stakeholders, but they are less decisive regarding the prioritisation of stakeholders' claims, given the scarcity of resources SMEs need for survival. By contrast, the urgency of a claim impacts prioritisation but has no influence on stakeholder identification.

As well as the above findings this study also verifies the dynamic relationship between attributes. In terms of the order of stakeholder salience, a stakeholder who has all four attributes has the greatest ability to influence SME's CSR decisions. For the SMEs who participated in the research, local government, as the holder of all four attributes, was by far and away their most salient stakeholder. For those employees who have utilitarian power, e.g., because of their strong educational background, they would also be regarded as salient. This similarly applies to the community with utilitarian power or normative power, e.g., because the community are part of the same kinship network as an SME's owner-manager. Counterexamples are employees in companies C, D, E,

and G, and the community of companies D, E, and G. For these employees and communities, they tend to have no power over the focal enterprise. As a result, their sole possession of legitimacy, proximity, or urgency cannot guarantee that their claims will be responded to by owner-managers.

Another reason why stakeholders can be salient or not is due to stakeholder power difference (Tang and Tang, 2012). As described in detail before, SMEs lack financial, political and human resources. Stakeholders who can provide them with these resources are thus significant to owner-managers. By contrast, stakeholders without utilitarian power and normative power are less salient. This also applies when a company already possesses more of these attributes than a stakeholder can offer. In the institutional context of Chinese SMEs, government has access to coercive power which other stakeholders and companies are not legally permitted to possess. Owner-managers are frightened of being put into jail. Thus, the possession of coercive power makes government dominant. Moreover, government controls financial resources and exerts great influence on financial institutions. The access to utilitarian power makes government remarkably powerful due to the typical circumstances of SMEs lacking sufficient funds to survive. In the same vein, Company H is a high-tech SME which requires employees with a high-level educational background. Due to their backgrounds, these employees possess utilitarian power over the company, and thus are more salient than the employees of the other SMEs that participated in this study who are generally poorly educated. When such poorly educated workers work for traditional manufacturing SMEs, they have no power as the company can easily find substitutes for them, and as a result these employees have little or no influence on CSR decisions. While for the community, if the company wishes to improve its reputation, this will grant the community some normative power and its claims will consequently be considered by the owner-manager. Otherwise, when the community cannot offer normative power and the company doesn't demand such power the community has limited influence.

In terms of the influence of China's National Business System (NBS), i.e., its political system, financial system and cultural system, it is clear that the country's national institutions directly influence the adoption of implicit CSR activities, e.g., campaign-

style law enforcement that forces companies to take legal responsibility, and ethical behaviours led by traditional customs. Nevertheless, the influence of the NBS is more closely connected with irresponsible decision-making. For the political system, the tournament promotion model causes a conflict of interests between central government and local government. To increase tax revenue, local government interferes with the work of law enforcement agencies, which supervise unlawful behaviours. Imperfect legislation and flaws in the legal system which reduce efficiency and protect powerful interests further exacerbate the phenomenon. As institutions that should provide protection to poor stakeholders, they fail to do so and often set up obstacles for the weak in trying to protect their interests. In the same vein, financial institutions offer little help to SMEs that are suffering financial distress. Therefore, it is common for SMEs to seek to cut costs to survive. Specifically, the costs that are usually cut cause illegal outcomes, e.g., wage and social insurance arrears or the discharge of polluted water or gas without any pre-treatment. Compared to political institutions and financial institutions that have the most direct influence on owner-managers' CSR decision-making, cultural and educational institutions have a more profound influence on the way owner-managers and stakeholders think. For instance, owner-managers who have not been systematically educated in management schools tend to lack CSR awareness and long-term strategic thinking concerning business management. Moreover, Confucianism and its key tenets relating to institutional collectivism, harmonious interpersonal relationships, and diligent work are deeply lodged in the Chinese psyche, and this to some extent prevents employees from seeking external help.

### **8.3 Summary of Barriers to SME CSR in China**

In line with the extant literature on barriers to SME CSR, this research found the same three barriers which predominate in other institutional contexts are also most relevant in China. This is perhaps a little surprising given the very different contextual environment that China presents. The first barrier is insufficient financial resources to undertake CSR activities. In China most SMEs struggle to survive, and very few are in sufficient financial health to support higher level CSR activities. The second barrier is the lack of CSR awareness and management knowledge. Owner-managers often act as a major constraint to CSR adoption given their limited CSR awareness and management knowledge. Additionally, the lack of well-qualified human resources in SMEs is

another obstacle concerning CSR knowledge. The third barrier, which is the main barrier to SME CSR, is the role of government. This includes the lack of government support, i.e., political resources, the uncertainty of continually changing government policies, and lax law enforcement.

A company which is financially constrained can only invest through its internal assets when external financing is problematic (Guariglia et al., 2011). SMEs in China are generally preoccupied by their primary economic responsibility and meeting the goal of survival. Higher social responsibilities are unaffordable and unrealistic for SMEs when they are struggling to survive. From analysis of the Chinese manufacturing industry, it can be concluded that most Chinese manufacturing SMEs are labour-intensive and lack essential technologies. The previous rapid growth of Chinese SMEs came about largely as the result of loose fiscal policy and a lax regulatory environment. The façade of this boom disguised their low-profitability and disorderly management. When there is stricter law enforcement, poorly regulated manufacturing SMEs struggle to survive due to financial difficulties and are generally unable to carry out other higher levels of social responsibility.

According to the interviews, reducing all “inevitable costs” is the only option for small companies when competing with larger rivals. These measures are usually illegal and include discharging pollutants without any pre-treatment, increasing working hours without providing any extra payment, and infringing large companies’ intellectual property by copying their products. Not constructing water disposal systems and air pollution prevention devices can “save” SMEs huge sums of money each year. And due to the low unit price of their products, SME managers continually seek to increase the number of their employees so that they can boost production and therefore their income. To increase profits, managers try all means to cut the cost of labour. Most SMEs extend working hours far beyond what the law permits. Furthermore, the lack of income limits product innovation. Few traditional manufacturing SMEs operate their own research centre. Copying and making cosmetic changes to large companies’ designs is an effective but illegal method for SMEs to cut their research costs.



If there was more external financial support, SMEs could perform better. However, most SMEs are private companies, and are therefore not at the centre of the Chinese national economy. In contrast, state-owned businesses play the leading role in China's socialist market economy with Chinese characteristics. As a result, SOEs dominate most financial resources. Backed by the government, SOEs easily pass the credit review procedure and obtain loans from banks, which saves a great of time that would otherwise be wasted waiting for approval. Also, state-owned banks dominate the banking sector in China. Both being key parts of the nationalised economy, state-owned banks are more likely to issue funding to SOEs at a low interest rate than to other types of company and, while the interest rate ceiling is under the strict control of the government, neither state-owned banks nor commercial banks have much incentive to grant credit to high-risk SMEs.

In addition, even though there is a government requirement for banks to provide special loans to SMEs, their high-risk status discourages local banks from completely following the orders of government and the central bank. Rather than directly guaranteeing loans for SMEs in the way it does for SOEs, the government is only willing to issue directives to banks which state that they should support the development of SMEs. However, such directives are easily ignored, or the banks find ways of reducing their risk. For example, to mitigate the possible blame of not meeting the requirements from the government, local banks grant short-term loans to SMEs in emerging industries or to SMEs which are important suppliers to large companies or SOEs while ignoring traditional SME manufacturers.

In comparison with high-tech SMEs, traditional manufacturing SMEs are therefore stuck in financial distress. The intrinsic nature of traditional manufacturing SMEs leads to cash flow difficulties. Financial institutions including the socialist market economy with Chinese characteristics, the government control over banks, the risk management of banks, the high standards of the stock market and bond market, and the recently introduced policy framework which is seeking to achieve a new high-tech industrial revolution in China further escalate SMEs financial troubles. Under the pressure of survival, SMEs have insufficient money to spend on higher level social responsibility

projects. However, what is even worse is that they often break the law in an attempt to make profits.

In terms of CSR awareness, management knowledge, and human resources a highly relevant issue relates to the fact that many Chinese people who were born before the 1980s are poorly educated. This is the result of historical factors. For instance, it was only in 1986 that China established its nine-year compulsory education policy (Rozelle et al., 2012) and this only actually came into effect in most regions in 2000 (Yanqing, 2012). Thus, this background seriously affects the educational levels of owners, managers, and employees of SMEs. According to the interviews, most owner-managers and employees are between 40 and 50 years old and they typically lack higher-level degrees. As a result, most owner-managers have little or no environmental or social awareness. Limited management knowledge also constrains owner-managers from hiring professional managers who demand high wages. Instead, most owners manage their companies themselves. Even when they promote employees to be managers, these employees also generally lack sufficient management or CSR knowledge. This not only restricts SMEs from participating in CSR activities but also constrains the further development of the companies. In this regard, SMEs cannot increase profits in a way that would allow them to invest in CSR.

One of the reasons why manufacturing SMEs lack young workers with good educational backgrounds is because they only offer very limited incentives. Most SMEs do not offer wages as high as those available in large companies. Furthermore, SMEs provide fewer or even no employee training programmes compared to large companies. Consequently, employees have limited chances to improve themselves. Moreover, manufacturing SMEs are usually located in remote areas far away from city centres. This means there are few opportunities for entertainment. Hence, even though many SMEs run internship programmes for university students every year, they often cannot attract or retain interns.

The poor education of employees also results in SMEs' poor performance regarding labour protection. On the one hand, a power imbalance exists in the labour relationship. Employers can easily recruit new employees when there are conflicts between existing

employees and the company, given that most manufacturing SMEs require workers with only a very low educational background. On the other hand, employees lack the knowledge to protect themselves. Indeed, the number of employees who understand the complicated legal provisions concerning labour protection is extremely low. When taken alongside the influence of social norms that encourage obedience to authority, group harmony and conflict-free interpersonal relationships, few employees take legal actions against their companies.

As has been mentioned, in light of the role of government and the fact that the private sector is not at the heart of the socialist market economy with Chinese characteristics, SMEs lack government support and therefore have difficulty accessing finance. Instead, it is SOEs which enjoy the most favourable government policies, including direct resource allocation, low bank credit interest, and free land resources. In contrast, private SMEs get limited or no access to the policies mentioned above. Moreover, their lack of political resources means SMEs cannot guarantee the implementation of government policies which are designed to favour them and while the central government has established a series of policies for this purpose, they have generally been ineffective and institutions like banks have ignored them. A particular issue relates to SMEs' lack of political resources to incentivise local governments to help them. With huge power to allocate resources, local governments at each administrative level in the local government hierarchy have great discretion about whether to give out resources and to whom.

One of the most notable aspects of the interviews with the owner-managers was the frequency with which the word “uncertainty” was mentioned. On the one hand, the extent to which laws are enforced can significantly change within a short period. Some SMEs are unable to meet the changing requirements and are thus shut down by the government. This is often not the result of newly published laws and regulations but rather when a decision is made to more strictly enforce existing laws. The inconsistency of law enforcement brings huge uncertainty to owner-managers. Moreover, the cadre rotation system affects the consistency of government decision-making. According to Eaton and Koskta (2014), leaders at the municipal and county level usually move to another city or county after three to four years and leaders of administrative departments

also change on average every four years. Each leader has his/her personal views about a particular programme or issue, and thus he/she may not completely follow the policy designed by his/her predecessor. As a result, SMEs find themselves having to frequently change direction according to new government policies and the demands of new officials. The frequent alteration of policies may result in the waste of resources, which to some extent contributes to SMEs' financial problems.

Alongside the first two barriers, lax law enforcement is the third barrier regarding the role of government. The reason why most SMEs take legal responsibilities is because of pressure from the government. Specifically, if government strictly enforces a particular law, companies will conform to that law. But the fact is, constrained by the state governance mode and the existence of some of unreasonable legal institutions, lax law enforcement continues to occur.

The existing Chinese state governance model represents a compromise between central government and various levels of local government. To best govern the large numbers of local governments in China's vast territory, China's central government pursues a dynamic balance of centralisation and decentralisation. Specifically, the central government uses the right to appoint local governors to push local governments to conform with instructions from the centre and to efficiently solve social problems at various levels. Under the pressure of wishing to be promoted, local cadres pay most attention to economic development and social stability as these issues are most important in the cadre evaluation system. However, the promotion tournament that exists to determine who gets promoted brings a side effect, i.e., local protectionism, which is a significant flaw of the Chinese state governance system. Instead of strictly enforcing the law, local governments prefer to increase tax revenue, which thus results in them disregarding irresponsible SMEs behaviours and suppressing the rights of workers. Channels for weak individuals and groups to protect themselves are highly constrained due to the government's overriding desire to guarantee social stability.

The bureaucratic system is deeply entrenched in the Chinese governance system and to some extent fosters local protectionism. In an attempt to resolve major problems in the distorted governance system, the central government uses campaign-style law

enforcement whereby it temporarily centralises power and adds stricter punishment rules to the existing promotion system. This campaign-style law enforcement is effective when it is first introduced into the governance system. However, local protectionism and the bureaucracy soon assimilate such campaigns into the standard governance system and the initial positive effects brought about by the campaign-style law enforcement fade away. As a result, lax law enforcement continues to exist.

Alongside problems with the political system, the legal system also has serious challenges regulating SMEs' socially irresponsible behaviours. In particular, China's legislative institutions have shortcomings in terms of how regulation is developed. For example, China's legislature does not routinely take public opinion into account. Other issues concern the unreasonable dispute mechanism for employees seeking to contest unfair treatment by the employers, outdated regulations concerning legal penalties, and the limited supervision of law enforcement agencies. Taken together, these result in inadequate judicial protection for disadvantaged stakeholders. Also, under the socialist legal system with Chinese characteristics, vulnerable groups are highly restricted in the extent to which they can protect themselves through protests, striking or by seeking help from other social organisations, e.g., trade unions or NGOs. Although there is ongoing judicial reform which is expanding the rights of procuratorates and which is helping to increase the independence of the judicial organs, the nature of the People's Procuratorate and the People's Court prevents them from working independently free of any interference from local governments. Under the leadership of the Communist Party, China's courts are a tool for the CCP to govern the country based on 'rule by law' rather than 'rule of law'. External and internal intervention heavily affects judicial independence. Even though local procuratorates and the courts are not formally subordinate to the local government in the same way as other administrative departments, local governments nonetheless control the financial support provided to both and therefore wield considerable influence over them. Furthermore, the internal management of the judicial organs copies other administrative hierarchical management methods, and the CCP intertwines with their management structures. Presidents of procuratorates and courts control the promotion of normal prosecutors and judges respectively. And the unique procuratorial committee and the trial committee which are formed by the leaders of the respective judicial authorities can

influence judgements or decisions of particular cases. In fact, judgements are often made outside the courtroom when a case relates to an enterprise that has made a significant contribution to generating tax revenue or providing large numbers of jobs.

In this regard, the limitations of the political system and the legal system are one of the major barriers to the development of SME CSR, especially legal responsibility. Lax law enforcement weakens the coercive power of the administrative organisations, which cannot force SMEs to operate their businesses in a fully legal manner. Impractical legal arrangements also prohibit poor stakeholders from defending their legitimate rights via judicial channels. Although there have been temporary improvements to the state governance system and soft centralisation of the judicial system, there have not been any truly radical reforms to the political system or the legal system that will fundamentally affect many of the issues outlined above. Both of the regular state governance model and the law-based governance system are deemed crucial to the ongoing maintenance of social stability and while this remains the case China's central government leaders seem unlikely to risk trying to change these institutions which despite their flaws have helped to transform China over the last four decades.

#### **8.4 Contributions**

The main contributions of this thesis concern three key issues. The first vital issue to note is that this study has significantly enhanced our understanding of SME CSR. Specifically, it has clarified what SME CSR stands for in the Chinese context, which until now has hardly been addressed by any other literature. Most importantly, the study has identified the unique social responsibility of social stability in Chinese SME CSR, which has never been observed in any other SME CSR context. Regarding motivations and obstacles, this thesis fills the gap concerning the lack of previous comprehensive analysis of either the motivations or obstacles to SME CSR in China, and as will be discussed lays the ground for future related research.

The second contribution concerns the application of the MAW-1997. Since it was first proposed by Mitchell et al. (1997), this stakeholder identification and salience model has been frequently adopted by academics. Numerous findings have been built on the

MAW-1997, but few studies have reached a consensus concerning the various debates that have emerged about the framework. Through the contextualisation of the MAW-1997 in the Chinese institutional context, power has been identified as the most influential attribute to stakeholder identification and prioritisation and that it overrides the other three attributes. In terms of the ranking of the different varieties of power, they rank in descending order as follows: coercive power, utilitarian power and finally normative power. This thesis has also verified the existence of a fourth attribute, proximity, and further proved its significance in stakeholder identification rather than the prioritisation of stakeholders' claims. Also, the study provides support for Driscoll and Starik's (2004) definition of urgency in comparison to that originally put forward by Mitchell et al. in which probability must be included as a key premise in addition to time sensitivity and criticality. The effect of urgency proves the arguments of Jones et al. (2007) and Neville et al. (2011) regarding the prioritisation of a claim rather than the identification of stakeholders. In the same vein as proximity, legitimacy is the basis of identification but is less significant in the prioritisation of different stakeholders' claims (Bussy and Kelly, 2010; J. Chen et al., 2018). And because pragmatic legitimacy overlaps with the consideration of utilitarian power and cognitive legitimacy, it lacks a clear rule for arriving at the judgement. Therefore, as Neville et al. (2011) proposed, moral legitimacy is the most suitable definition instead of the one put forward by Mitchell et al. (1997).

The final contribution relates to the CSR and institutional context framework proposed by Matten and Moon (2008). The key characteristic of Chinese SME CSR is consistent with the "State-led Society-driven" conceptualisation suggested by Hofman et al. (2017, p. 652), where CSR is neither purely implicit nor explicit. In the Chinese institutional context the role of government significantly influences SME CSR. The central question at the heart of this research is why SME CSR is underdeveloped in China. The investigation of how stakeholders and national institutions influence CSR decision-making successfully contributes to this research question. This may provide policy implications for governments that wish to improve SME CSR performance and to solve related societal matters.

## **8.5 Limitations and Future Research**

There are some limitations to this research. The first concerns the sample selection. As all six of the companies that participated in the study were located in Shandong province, this was not a cross-sectional investigation. Specifically, there are more developed and less developed areas in other parts of China relative to Shandong province, and if research is undertaken in such areas, it may provide additional more nuanced understandings of SME CSR. Moreover, the companies were limited to the manufacturing industry, and most operated in labour-intensive areas of the economy. They were helpful as case studies to enhance our understanding of CSR regarding environmental protection and labour protection, however, as shown by one of the cases, high-tech SMEs offer different results in comparison with other types of SMEs. Furthermore, another limitation is the small sample size. In future research the sample should be enlarged. To build on this research, which focussed on owner-managers of SMEs, their employees, and government officials, the opinions of other stakeholders, i.e., the community, suppliers, and customers, should be investigated to build a more comprehensive insight into SME CSR. Furthermore, another future avenue would be to adopt a positivist approach to test the findings of the current research through a much larger sample of SMEs, either in China or in other countries with a similar institutional environment. This would significantly contribute to SME CSR research in a wider context.



## Appendices

### Appendix 1

Interview questions for owner-managers	
Background Information	<p>1. Self-introduction (name, position, educational background)</p> <p>2. Company information (company name service or product, the number of employees, revenue, whether have been punished or involved in any cases)</p>
Research question 1: How do SME owner-managers perceive and practice CSR in the Chinese institutional context?	<p>Interview question 1: Tell me something about CSR in your opinion. What does CSR imply for your business?</p> <p>Interview question 2: How is CSR operated by your company? (From the economic, legal, ethical and philanthropic perspective)</p> <p>Interview question 3: Are there any additional activities your firm does which go beyond the minimum requirement by the law?</p> <p>Interview question 4: Do you think the pursuit of economic goals is confronted with moral obligations? How do you strike the balance between the two?</p> <p>Interview question 5: What do you expect to get from your CSR activities?</p> <p>Interview question 6: What kind of obstacles does your company face when implementing CSR activities?</p>

<p>Research question 2: Who and what really counts in the organisational field of Chinese SMEs?</p> <p>Research question 3: Why is a particular stakeholder salient or not? Why is a specific stakeholder attribute significant or not?</p> <p>Research question 4: How do China's political, financial and cultural systems influence SMEs' CSR decisions?</p>	<p>Interview question 7: Who is the decision-maker in your company?</p> <p>Interview question 8: To what extent do stakeholders (government, investors, customers, employees, creditors, and the community) affect your CSR decisions?</p> <p>How do they affect your CSR initiatives? Please give some examples.</p> <p>Interview question 9: Who do you think the XXX(mentioned in the last question) is the most influential stakeholder?</p> <p>How about the salience order?</p> <p>Interview question 10: Why do you care or do not care about the influence of the specific stakeholder?</p> <p>Interview question 11: Do you have any religious beliefs? To what extent does religion affect your decision-making?</p> <p>Interview question 12: To what extent do you think traditional culture affect your CSR decisions? Why?</p> <p>Interview question 13: To what extent do you think Confucianism affect your CSR decisions? Why?</p>
<p>Questions for employees:</p>	<p>Background information: Name, age, position, educational background</p> <p>Interview question 1: How long have you been working in this company? Are you happy with your work?</p> <p>Interview question 2: How many colleagues are there in your company? Who is the decision-maker of the company?</p> <p>Interview question 3: How much is the monthly payment? Have you received your wage on time?</p> <p>Interview question 4: How long do you work a week? Are there any weekends or holidays? Is there any over-time working fees?</p> <p>Interview question 5: To what extent do you know the fact that your company has been punished? Is this punishment inevitable or incidental?</p> <p>Interview question 7: Do you think your company has fully</p>

	<p>achieved the requirements provided by the employment protection law? i.e. labour insurance, overtime working, wage arrear</p> <p>Interview question 8: Do you know that you have the right to complain to the government if your rights have been infringed? Have you ever reported? If yes, does the government solve your problem? If not, what is the reason for keeping silent? Are there any of your colleagues reporting to the government? If yes, does the government solve your problem? If not, what is the reason for keeping silent?</p> <p>Interview question 9: Is there any staff training or extra welfare beyond the wage?</p> <p>Interview question 10: To what extent can the decision-maker hear your voice? Will they solve your problems in time?</p>
<p>Questions for government officials:</p>	<p>Interview question 1: How do you know about this punished company?</p> <p>Interview question 2: Do you think they are bound to be punished? Why or why not?</p> <p>Interview question 3: Why they are unable to fulfil such social responsibility? What are barriers to their CSR implementation?</p> <p>Interview question 4: As mentioned by many owners, the reason why they are punished is due to the temporary strict law enforcement. What is your opinion?</p> <p>Interview question 5: Why there has been lax law enforcement before? How do you improve law enforcement now?</p> <p>Interview question 6: How do you think that managers feel great risks?</p> <p>Interview question 7: To gain legitimacy, some companies would take a particular social responsibility and would ignore the other responsibilities. Will the government ignore their unethical behaviours due to they have already met the government's needs?</p>

	<p>Interview question 8: Overtime working is prevalent in SMEs, which is illegal. Why does the government ignore this problem? If the law enforcement for employees' protection is as strict as environmental protection, will the overtime working or payment default be improved?</p> <p>Interview question 9: How do you handle the case before the <i>'Decision of the CCCPC on Some Major Issues Concerning Comprehensively Deepening the Reform'</i> was issued? (For prosecutor and judge only)</p> <p>Interview question 10: What is the situation now (For prosecutor and judge only)</p> <p>Interview question 11: Do you think there is less interference from the leaders of the procuratorate/court after the Decision was issued? (For prosecutor and judge only)</p> <p>Interview question 12: How about the local government interference after the Decision was issued? (For prosecutor and judge only)</p> <p>Interview question 13: Where do you get paid from, the procuratorate/court or the local government? (For prosecutor and judge only)</p>
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**Appendix 2**  
**Participant Consent Form**

Title of Research Project: Business Environment and Corporate Social Responsibility (CSR): Barriers to CSR of Small and Medium-Sized Enterprises (SMEs) in China

Name of Researcher: Xiaochen Zhang

**Participant Identification Number for this project:** **Please initial box**

1. I confirm that I have read and understand the information sheet/letter   
dated \_\_\_\_\_ explaining the above research project and I have had  
the opportunity to ask questions about the project.
  
2. I understand that my participation is voluntary and that I am free to withdraw  
at any time without giving any reason and without there being any negative  
consequences. In addition, should I not wish to answer any particular   
question or questions, I am free to decline. If you want to withdraw any of your  
claim, feel free to contact +44 7542035813 or xzhang106@sheffield.ac.uk
  
3. I understand that my responses will be kept strictly confidential. I give  
permission for members of the research team to have access to my anonymised  
responses.   
  
I understand that my name will not be linked with the research materials,  
and I will not be identified or identifiable in the report or reports that result  
from the research.
  
4. I agree for the anonymised data collected from me to be used in future research.

5. I agree to take part in the above research project.

\_\_\_\_\_

\_\_\_\_\_

Name of Participant  
*(or legal representative)*

Date

Signature

\_\_\_\_\_

\_\_\_\_\_

Name of person taking consent  
*(if different from lead researcher)*

Date

Signature

*To be signed and dated in presence of the participant*

\_\_\_\_\_

\_\_\_\_\_

Lead Researcher

Date

Signature

*To be signed and dated in presence of the participant*

### Appendix 3

#### 参与者知情同意书

研究题目: 中国中小企业履行企业社会责任的困难

研究者姓名: 张笑晨

参与者在本次研究中的编号:

请在方框中打钩

1. 我确认我已阅读并理解此研究的信息资料在 (日期)   
研究信息资料表详细解释了这项研究。我知悉我有权对此研究提出问题。
2. 我知道我是自愿参加此次研究。不管由于任何原因或不管造成何种负面影响, 我知道我有权在任何时候退出此研究。   
如想退出, 请联系+44 7542035813 或给 [xzhang106@sheffield.ac.uk](mailto:xzhang106@sheffield.ac.uk) 发邮件。
3. 我知道我的回答会被严格保密。我准许此研究团队的成员使用  
我的匿名回答。我已知悉我的名字不会与任何研究材料相关联,   
并且我不会通过任何研究报告或者研究结果被分辨出来。
4. 我同意我所提供的匿名数据在今后的研究中被使用
5. 我同意参加此研究项目。

\_\_\_\_\_  
\_\_\_\_\_  
参与者姓名  
(或法定代表人)

\_\_\_\_\_  
日期

\_\_\_\_\_  
签名

\_\_\_\_\_  
\_\_\_\_\_  
征得同意人姓名  
(如果与研究负责人不同)  
*此项需在参与者面前签署*

\_\_\_\_\_  
日期

\_\_\_\_\_  
签名

\_\_\_\_\_  
\_\_\_\_\_  
研究负责人  
*需在参与者面前签署*

\_\_\_\_\_  
日期

\_\_\_\_\_  
签名



## Appendix 4

### Participant Information Sheet

*You are being invited to take part in a research project. Before you decide it is important for you to understand why the research is being done and what it will involve. Please take time to read the following information carefully and discuss it with others if you wish. Ask us if there is anything that is not clear or if you would like more information. Take time to decide whether or not you wish to take part. Thank you for reading this.*

It is up to you to decide whether or not to take part. If you do decide to take part you will be given this information sheet to keep (and be asked to sign a consent form) and you can still withdraw at any time without it affecting any benefits that you are entitled to in any way. You do not have to give a reason. You can withdraw your participation at any time. You can request for your data to be withdrawn until publication of the data, without giving a reason and without prejudice.

If you withdraw from the study this will mean that both identifiable data and anonymized data collected would be withdrawn from the study. Both identifiable and anonymised data will be destroyed. No further data would be collected or any other research procedures would be carried out on or in relation to you.

Participant will be given a copy of the information sheet and, if appropriate, a signed consent form to keep.

#### **1. Research Project Title:**

Barriers to Corporate Social Responsibility (CSR) of Small and Medium-Sized Enterprises (SMEs) in China

#### **2. Background, aim and duration of the project**

China is now facing serious social and environmental problems. Chinese government has made great efforts to improve matters and to promote corporate social responsibility (CSR),

but the problems remain severe. Little attention has been paid to the CSR performance of medium-sized enterprises (SMEs), despite the fact that SMEs are an important component of the economy with close links to people's daily life and SMEs perform poorly in CSR. This research aims to investigate why Chinese SMEs perform poorly in CSR and what are barriers to CSR of SMEs. Hopefully, this research will end within the term years of the researcher's PhD study.

### **3. Sample Criteria**

To answer the research question, semi-structured interviews are undertaken on owners or managers, employees, and government officials. Six SMEs that have problems with CSR will be chosen. This research will be conducted in Shandong province.

### **4. What will happen to you if you take part?**

Participant will be involved with this research no more than an hour and a half. The major time to occupy is the interview. After the interview, the only thing to bother you is to make sure the transcription of the audio recording is what you have said. This is a semi-structured interview. It is not an interview only including questions and answers. The researcher hopes to have an in-depth conversation with the participant. What the participant hopes to offer is the fact that you know and the true feeling of yourself.

### **5. Possible disadvantages and risks of taking part**

Due to the purpose of this research, what the researcher wants to know is the reason why firms act badly in corporate social responsibility and barriers to corporate social responsibility. You might feel discomfort when I state that your firm has been punished.

### **6. Possible benefits of taking part**

Whilst there are no immediate benefits for those people participating in the project, it is hoped that this work will offer beneficial thoughts to both policy-makers and SMEs. For policy-makers, the results of this research can present some overlooked insights. It is useful for policy-makers to improve their policies to make SMEs better participate into CSR practices. It is also hoped it will facilitate the operation of SMEs, which will then improve the healthy development of the national economy. For SMEs, this research will give a clear angle to think about the firm's shortcomings when operating the CSR, especially for SMEs who act in undesirable ways. It is beneficial to their further sustainable development.

### **7. What if something goes wrong?**

If you have any complaints about this interview, including interview questions, process, and ways it conducted, you can tell the researcher directly without giving a reason. If you find difficulties telling the researcher, you can directly contact the supervisor of the researcher. If you feel your complaint has not been handled to your satisfaction (e.g. by the researcher's supervisor), you can contact the Head of Department.

### **8. Will I be recorded, and how will the recorded media be used?**

The audio recordings of interviews made during this research will be used only for analysis and for illustration in conference presentations and lectures. No other use will be made of them without your written permission, and no one outside the project will be allowed access to the original recordings.

### **9. Will my taking part in this project be kept confidential?**

Only when you give permission to use information collected by the interview, the researcher will have the access to use. Any information including your signature, the audio recording, and the transcription will be kept strictly confidential. You will not be able to be identified in any reports or publications. If data not remains confidential, do not be too worry about it. I will be the only researcher with access to identifiable information about the participants. Only non-identifiable data will be shared with other researchers, and this will be anonymised and kept non-identifiable according to known best practices. For non-identifiable data, I will ask for your consent if your data may be shared with other researchers and used for teaching and/or in publications. If you agree, data will be shared securely.

Due to the use of audio recording, recordings will be stored on my smartphone with the password. In case of the broken /stolen of my phone, the researcher will also do the backup on an encrypted, secured network-based storage platform (Baidu Net disk). All of these translation works including the Chinese version of the information sheet, the Chinese version of consent forms, Chineses version of the transcription, and English version of transcription will be viewed as the same when processing them. Researcher will ensure all these securely. During data collection period, consent forms will be stored by myself privately. After data collection has ended, consent forms will be scanned to pdf and the originals securely shredded. These pdfs along will all other data will be stored on the secured encrypted cloud

storage platform (Baidu Net Disk). User name and password will only know by the researcher. After this research has been done, all the data will be deleted without any backup.

**10. What type of information will be sought from me and why is the collection of this information relevant for achieving the research project's objectives?**

Your true feelings and thoughts about why your firms do not behave well enough and what are obstacles to perform CSR is what the researcher wants to hear from. To analyze all of the participants' answers, the researcher hope to know why SMEs in China fail to perform CSR and what barriers that hinder the SME CSR development.

**11. What will happen to the results of the research project?**

Research results will be published as the PhD dissertation of the researcher himself. You will not be identified in any report or publication. The data collected during the course of the project might be used for additional or subsequent research. Due to the nature of this research it is very likely that other researchers may find the data collected to be useful in answering future research questions. We will ask for your explicit consent for your data to be shared in this way and if you agree, we will ensure that the data collected about you is untraceable back to you before allowing others to use it.

**12. Who has ethically reviewed the project?**

This project has been ethically approved via School of East Asian Study's ethics review procedure. The University's Research Ethics Committee monitors the application and delivery of the University's Ethics Review Procedure across the University.

**13. Contact for further information**

Researcher: Xiaochen Zhang Tel: +44 07542035813 E-mail: xzhang106@sheffield.ac.uk

Supervisor: Dr. Zhong Zhang E-mail: zhong.zhang@sheffield.ac.uk

**Thanks for your reading!**

**It would be really appreciate for your taking part in this research project.**

## Appendix 5

### 研究信息资料表

很荣幸能邀请您参加此次研究项目。在您决定参加此次研究之前，请花些时间仔细阅读以下信息。如果您希望与他人讨论以后再做决定，我们会耐心等待。因为理解这个研究为什么需要被进行以及这个研究具体涉及什么，对您来说是很重要的。对于有任何不清楚的地方，或者有哪些您想知道的更详细，可以直接向我提问。非常感谢您对此说明的阅读。

决定参加此研究与否，完全取决于您的意愿。如果您决定参加此项目，您将会得到一份研究信息资料表。同时，您需在一份参与同意书上签字确认。不管发生任何事情或者损害任何利益，您可以在任何时候退出此研究。对于您的退出，您不需要给出任何理由。同样，在数据被发表之前，不需给出任何理由，您有权要求撤回任何从您这里收集到的信息。

如果您选择退出此研究，这意味着您可被辨识的数据和匿名数据都会被从此研究中取出。这些数据都会被销毁，不会再有任何数据或者研究流程干扰到您。

如果您同意参加此研究，您将会得到一份此资料表的复印件以及一份同意书。

1. 研究题目：中国中小企业履行企业社会责任的困难
2. 研究背景，目的，以及持续时间

当今中国正面临严重的环境问题和社会问题。虽然中国政府努力去解决这些问题，同时促进企业履行社会责任，但是问题依然很严重。即时中小企业在中国经济体系中占据了绝大多数，中小企业的发展与人民生活息息相关，并且关于中小企业的社会责任问题很严重，但是很少有人去关注中小企业的发展。这个研究希望能够了解为什么中小企业在履行企业社会责任的过程中做的不够好，同时，此研究想要知道具体有哪些困难在困扰着中小企业履行社会责任。如果一切顺利，这项研究能够在研究者博士期间完成。

### 3. 样本选取标准

为了获得研究结果，此研究将会与中小企业的企业主，企业经理，员工，以及政府官员进行半开放式采访。六家因履行社会责任有困难的企业组成了此研究的样本。此次研究将会在山东省展开。

### 4. 如果您参加会有什么影响？

参与者所需要投入的时间不会超过 1 个半小时。占用时间最多的是采访。采访之后，参与者唯一会被打扰的事情，是当研究者把录音转译成文字，和翻译成英文后，参与者去确认是否与自己诉述相符。这是个半开放式的采访，并不是传统采访那种一问一答的形式。研究者希望能够与参与者进行深度的访谈，得到参与者所知道的事实和最真实的感受。

### 5. 参与此研究可能出现的不良反应

因为这个研究的目的是想知道为什么中小企业在社会责任方面做的没有那么好，

还有企业在履行社会责任过程中，遇到了或者将会有哪些困难。参与者可能会因为研究者的表述，比如公司被处罚，感到不舒服。

#### 6. 参与此研究可能带来的好处

说实话，这项研究不会对参与者带来什么直接的好处。但是，希望这个研究会政策制定者和中小企业带来好处。对政策制定者而言，此研究结果可能会呈现一些被忽视的点，从而当制定新的政策时，能够促进中小企业社会责任的发展。因为促进中小企业发展，就是促进中国整体经济的发展。对于中小企业本身而言，当中小企业思考自己如何更好的践行企业社会责任时，这个研究希望提供一种清晰的思考角度。这将有利于中小企业的长期发展。

#### 7. 当有问题出现时怎么处理

如果您对此采访有意见，包括采访问题，采访流程，以及采访进行的方式，您可以无需任何理由的情况下直接告诉研究者。当您觉得跟研究者交流困难时，您可以直接沟通研究者的导师。当您对导师提供的解决方式不满时，可以直接联系研究者和导师所在的学院负责人。

#### 8. 研究者是否会被录音？录音将会如何处理？

采访的录音会被用来做研究分析，讲课和会议演讲的例子。在没有您书面允许的情况下，没有任何人可以使用这些数据。其他任何非此研究团队的人，都没有可能得到原始录音数据。

#### 9. 研究者的参与是否会被保密？

只有当您同意研究者用采访采集数据时，研究者才有权使用。任何信息包括您的签名，录音，和转译的文件，都会被严格保守秘密。您将不会被任何报道或者出版物所辨认出来。如果数据保护出现纰漏，您也不需太过担心。因为，只有不会被识别出您身份的数据会分享给其他的研究者。同样，这些数据都是匿名的并且会用当前已知最好的方式，去保证它的不可辨别性。只有您同意我将不可辨别的数据分享给其他研究人员，或是用来教课和出版，我才会这样做。

考虑到采访会被录音，录音将会存储在带有密码的手机里。为了防止手机丢失或损坏的情况发生，录音会被备份到加密的网络云端（百度网盘）。所有的翻译文件，包括中文版的研究信息资料表，中文版的参与同意书，中文录音转译本，英文录音转译本都会和原始数据一样，研究者会将他们视作保密文件妥善保管。在数据收集期间，同意书将会被研究者亲自保存。当数据收集这个阶段完结时，研究者会把他们扫描成 PDF 文件并上传到云端（百度网盘）。原始同意书将会被安全的销毁。云端的用户名和密码只有研究者自己知道。此研究结束以后，所有的数据文件都将会被销毁，不会有任何备份存在。

10. 这个研究会收集什么信息从而能达成什么样的目标？

公司为什么在社会责任方面做的不够完美，以及公司在履行社会责任过程中，已经或将会遇到什么困难，对于以上问题您最真实的感受和想法是研究者想要从参与者得到的信息。通过分析数据，研究者希望知道为什么中国的中小企业在履行社会责任时，会衍生出很多问题。同时，研究者还想知道具体有哪些困难阻碍了中小企业的企业社会责任发展。

11. 研究会产生怎样的后果？



研究结果会被研究者发表在他自己的博士论文中。您将不会被任何报道和出版物所辨识出来。这个研究得出来的结果，同时还可能被用作其他研究或后续研究。考虑到此研究的性质，其他研究者可能会对此研究结果感兴趣。只有征得您的同意，我们才会分享跟您有关的研究数据。我们会确保，当其他研究者使用此数据时，您不会被认出。

## 12. 谁负责审核此研究的是否符合研究道德准则？

这个项目会经过谢菲尔德东亚研究学院的研究道德审核流程。谢菲尔德大学研究道德委员会监督并负责整个申请过程。

## 13. 联系方式

研究者：张笑晨 手机号：+44 7542035813 邮箱：[xzhang106@sheffield.ac.uk](mailto:xzhang106@sheffield.ac.uk)

导师：Zhong Zhang 邮箱：[zhong.zhang@sheffield.ac.uk](mailto:zhong.zhang@sheffield.ac.uk)

感谢您的阅读！

如果您决定参加此研究，我会非常荣幸！

## Appendix 6

### Ethics Approval Letter



Downloaded: 10/07/2021  
Approved: 09/07/2018

Xiaochen Zhang  
Registration number: 160264290  
School of East Asian Studies  
Programme: EASR31

Dear Xiaochen

**PROJECT TITLE:** Business Environment and Corporate Social Responsibility (CSR): Barriers to CSR of Small and Medium-Sized Enterprises (SMEs) in China  
**APPLICATION:** Reference Number 017756

On behalf of the University ethics reviewers who reviewed your project, I am pleased to inform you that on 09/07/2018 the above-named project was **approved** on ethics grounds, on the basis that you will adhere to the following documentation that you submitted for ethics review:

- University research ethics application form 017756 (form submission date: 27/06/2018); (expected project end date: 31/01/2019).
- Participant information sheet 1043056 version 2 (27/06/2018).
- Participant information sheet 1043055 version 2 (27/06/2018).
- Participant consent form 1043058 version 1 (26/04/2018).
- Participant consent form 1043057 version 1 (26/04/2018).

If during the course of the project you need to [deviate significantly from the above-approved documentation](#) please inform me since written approval will be required.

Your responsibilities in delivering this research project are set out at the end of this letter.

Yours sincerely

Hiroaki Watanabe  
Ethics Administrator  
School of East Asian Studies

Please note the following responsibilities of the researcher in delivering the research project:

- The project must abide by the University's Research Ethics Policy:  
<https://www.sheffield.ac.uk/rs/ethicsandintegrity/ethicspolicy/approval-procedure>
- The project must abide by the University's Good Research & Innovation Practices Policy:  
[https://www.sheffield.ac.uk/polopoly\\_fs/1.6710661/file/GRIPPolicy.pdf](https://www.sheffield.ac.uk/polopoly_fs/1.6710661/file/GRIPPolicy.pdf)
- The researcher must inform their supervisor (in the case of a student) or Ethics Administrator (in the case of a member of staff) of any significant changes to the project or the approved documentation.
- The researcher must comply with the requirements of the law and relevant guidelines relating to security and confidentiality of personal data.
- The researcher is responsible for effectively managing the data collected both during and after the end of the project in line with best practice, and any relevant legislative, regulatory or contractual requirements.

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