

Li-en Lin

**Corporate Social Responsibility in China:
Analysis of Key Drivers for the
Implementation of CSR and Assessment of
the Impacts on Company Performance**

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Bachelor Thesis

***Corporate Social Responsibility in China:
Analysis of Key Drivers for the Implementation of CSR and
Assessment of the Impacts on Company Performance***

Thesis to Achieve the Degree of
"Bachelor of Arts"
at Munich Business School

Presented by:

Lin, Li-en

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Abstract

In the course of China's rise to a significant player in the global economy, concerns are voiced regarding individual Chinese companies' irresponsible behaviors among the international communities, resulting in the Chinese government's introduction of strict regulations on social responsibility for companies operating in China. However, due to the decisive government interventions, further potential underlying reasons for Chinese companies' corporate social responsibility (CSR) involvement remain uncertain.

The goal of this thesis is to provide insights about CSR and its key drivers and the potential effects of CSR on Chinese companies' performances as well as to offer recommendations for managers of companies in China. The thesis first addressed CSR development in the US and in China by using relevant literature. The results of the literature review showed that legal requirements, government influence, and financial profitability were key drivers for both US and Chinese companies, and CSR had a positive impact on firm performance in both countries. Subsequently, eight semi-structured key informant interviews were conducted. The selected informants were all upper-level managers in their respective companies who were aware of China's CSR strategy and were performing related practices in their firms. The interview results indicated that while legal requirements and government involvement were still the driving forces behind companies' CSR implementation in China, financial profitability is an additional predominant factor for companies' decision-makers. Furthermore, both theoretical and empirical insights displayed a positive relationship between CSR and corporate social and economic performance, indicating that CSR practices benefit both companies and the society.

Table of Content	Page
Index of Figures	5
Index of Tables.....	6
Index of Appendices	7
Index of Abbreviations.....	8
1 Introduction	9
1.1 Relevance of the topic	10
1.2 Problem statement and purpose of the thesis	11
1.3 Terminology	12
1.3.1 Definition of CSR	12
1.3.2 CSR and business ethics	14
1.3.3 Company performance in context of CSR	15
1.4 Structure and approach of the thesis	16
2 Literature review	17
2.1 Selection criteria of literature.....	18
2.2 Corporate Social Responsibility.....	20
2.2.1 Theoretical frameworks	21
2.2.2 CSR reporting and standards.....	25
2.3 CSR development in the US	27
2.3.1 CSR regulations in the US	28
2.3.2 Perception of CSR in the US.....	29
2.3.3 Drivers of US companies' CSR implementation	29
2.3.4 Impacts of CSR on US companies' performance	31
2.4 CSR development in China.....	32
2.4.1 CSR regulations in China.....	33
2.4.2 Perception of CSR in China	36
2.4.3 Drivers of Chinese companies' CSR implementation	37
2.4.4 CSR development in China.....	39
2.5 Intermediate results	40
3 Methodology	43
3.1 Research approach	44
3.2 Research design and strategies.....	44
3.3 Data collection and sample selection	45

3.4	Limitations and solutions	47
3.5	Interview design and analysis	48
3.5.1	Interview design and analysis	48
3.5.2	Classification of interview questions	49
4	Empirical findings	51
4.1	Interpretation of CSR	52
4.1.1	Personal understanding of CSR	52
4.1.2	Personal understanding of CSR	53
4.2	Implementation of CSR and key drivers	56
4.2.1	CSR projects and reasons for selection	56
4.2.2	Managerial roles and techniques	58
4.2.3	CSR reporting and measurement	59
4.2.4	Challenges of CSR implementation	60
4.2.5	Key drivers of companies' CSR implementation.....	60
4.3	Impacts of CSR implementation on corporate performance	62
4.3.1	Expected and actual benefits from performing CSR.....	62
4.3.2	Impact on company performance and the larger environment.....	63
4.4	Summary of interview findings.....	66
5	Discussion, implementation, recommendation	67
5.1	Comparison of literature review results and selected empirical findings	68
5.2	Answers to the research questions	70
5.3	Recommendations	71
5.4	Limitations and future research.....	72
6	Conclusion	73
	Bibliography.....	76
	Appendix	85

Index of Figures	Page
Figure 1: The diagram of stakeholders	22
Figure 2: The Pyramid of Corporate Social Responsibility	25
Figure 3: Deduction, induction, and abduction: from reason to research	85

Index of Tables	Page
Table 1: Search results on four online academic databases	19
Table 2: Key drivers of CSR implementation by country	42
Table 3: Impact on company performance by country	43
Table 4: Background information of interviewees and companies.....	49
Table 5: Key informants' perception of CSR.....	56
Table 6: Key drivers for companies' CSR implementation.....	61
Table 7: Impacts of CSR implementation on company performance.....	66
Table 8: Literature filtering process.....	85
Table 9: Sources for the formation of interview questions.....	86
Table 10: Companies' Specific CSR Projects and Reasons for Selection.....	137
Table 11: Expected and actual benefits of CSR to the selected companies.....	138

Index of Appendices	Page
Appendix I: Table 8: Literature filtering process.....	85
Appendix II: Figure 3: Deduction, induction, and abduction: from reason to research	85
Appendix III: Table 9: Sources for the formation of interview questions.....	86
Appendix IV: Interview 1: CEO – Jingzhi Duan.....	91
Appendix V: Interview 2: Marketing Manager – Jun Yang.....	96
Appendix VI: Interview 3: CEO – Rui Liu.....	102
Appendix VII: Interview 4: Sales manager – Liang Su.....	107
Appendix VIII: Interview 5: CEO – Dasheng Fang.....	112
Appendix IX: Interview 6: Former business development manager – Jian Su.....	118
Appendix X: Interview 7: CEO – Haiqiang Wan.....	124
Appendix XI: Interview 8: Spokesperson (representing vice-CEO: Chao Wu) – Dashan Zheng.....	130
Appendix XII: Table 10: Companies’ Specific CSR Projects and Reasons for Selection.....	137
Appendix XIII: Table 11: Expected and actual benefits of CSR to the selected companies.....	138

Index of Abbreviations

CASS	Chinese Academy of Social Sciences
CCP	Chinese Communist Party
CED	Committee for Economic Development
CEO	Chief Executive Officer
CFP	Corporate Financial Performance
CHINCA	China International Contractors Association
CSP	Corporate Social Performance
CSR	Corporate Social Responsibility
ESG	Environmental, Social, and Governance
GDP	Gross Domestic Product
GRI	Global Reporting Initiative
ISO	International Organization for Standardization
MNE	Multinational Enterprise
OGI	Open Government Information
ROA	Return on Asset
ROE	Return on Equity
ROI	Return on Investment
ROS	Return on Sales
SASAC	State-owned Assets Supervision and Administration Commission of the State Council
SDG	Sustainable Development Goals
SME	Small- and medium-sized Enterprise
SOE	State-owned Enterprise
TBL	Triple Bottom Line
UN	United Nations
UNIDO	United Nations Industrial Development Organization
US	United States of America
VHB	German Academic Association of Business Research
WTO	World Trade Organization

1 Introduction

As the country ranked second in terms of gross domestic product (GDP) and with the largest population worldwide in 2019, the People's Republic of China¹ has caught global attention and improved its status among international communities (Liao, Lin, & Zhang, 2018; Urnersbach, 2020). Since the 1970s, an increasing number of Western corporations, namely multinational enterprises (MNE), have either moved production sites to or are headquartered in China due to cheaper labor costs and looser regulatory restrictions (Miska, Witt, & Stahl, 2016). While Chinese economic development has undergone exponential growth within the three decades, public concerns regarding Chinese businesses' ethical behaviors have increased in domestic and international contexts.

In 2008, a scandal of a Chinese infant formula manufacturer had stirred up heated discussions among the Chinese media and society, which triggered the Chinese government to enact stricter rules and requirements on the scope of social responsibility of Chinese companies (Zhu & Zhang, 2015). The Sanlu Group was among the most famous producers for infant formulas in China until the news revealed Sanlu's usage of melamine, a chemical for industrial use, in infant formulas. Consequently, more than 300,000 infants and young children were diagnosed with kidney-related health issues and got hospitalized in the same year. The incident led to the bankruptcy of the Sanlu Group and its suppliers on a large scale, damaged young consumers' health, and disrupted Chinese customers' trust in other manufacturers in the food industry (Zheng, Luo, & Wang, 2014). The fraud demolished Chinese companies' reputations, and the credibility of Chinese enterprises, as well as the quality of products manufactured in the country, were doubted. As a result, the scandalous event has raised the Chinese government's awareness and catalyzed its intervention in Chinese enterprises' corporate social responsibility (CSR). The topic of CSR in China has further stimulated the interest of Chinese companies' management boards (Zhang & Rezaee, 2009).

¹ China will be used as an abbreviation for the People's Republic of China in this thesis. Due to differences between government policies, languages, and culture, China's geographic region covers only Mainland China and excludes HongKong, Macau, and the Republic of China (Taiwan).

1.1 Relevance of the topic

CSR has been relevant for the core business strategies of various sizes of companies (Spence, Crane, & Matten, 2014). Due to the continuous public and administrative appeals to global enterprises' involvement in legal and ethical businesses, the implementation of CSR has become prevalent worldwide since the 1970s (Carroll, 1991). By adopting CSR practices, a firm has accepted its obligation to account for stakeholder groups' well-being regarding environmental and societal goals rather than focusing solely on maximizing financial returns to its shareholders (Goel & Ramanathan, 2014). Based on a survey regarding consumers' expectations on CSR conducted by Nielsen in 2015, a positive correlation exists between CSR implementation and increasing consumer demands (Nielsen, 2015). CSR engagement strengthens an enterprise's social recognition and reputation, leading to higher customer advocacy and loyalty (Latif, Pérez, & Sahibzada, 2020). Thus, the cause-effect relationship encourages corporations to implement CSR. A company's social performance further contributes to its ecological and economic performance, such as public recognition and financial achievements (Li, Pinto, & Diabat, 2020). Therefore, enterprises worldwide have started to invest in CSR programs and integrated professional management and strategies (Utz, 2018).

According to a KPMG survey regarding corporate responsibility from 2017, 93% of the 250 largest corporations worldwide reported their CSR progresses in the same year, which is more than double compared to 35% in 1993 (Blasco, King, McKenzie, & Karn, 2017). Furthermore, the 17 Sustainable Development Goals (SDGs), launched by the United Nations (UN) in 2015, have encouraged global companies' engagement in environmental and socially responsible programs (United Nations, 2020). The UN SDGs are commonly used as a guideline to carry out companies' CSR objectives, aiming to improve people's life quality and the planet's condition (Li et al., 2020; Cheema, Afsar, & Javed, 2020). Thus, the recent trend of global corporations' active engagement in CSR activities has indicated a growing significance of CSR worldwide (Utz, 2018).

Although the modern CSR concepts have been widespread in North America since the mid 20th Century, the development of CSR in emerging markets is still in the work-in-process phase (Lo, Egri, & Ralston, 2008). The ideas of corporate social activities did not