

# **PUBLIC ENVIRONMENTAL REPORTING IN CHINA**

**Anna L. Rowe<sup>1</sup>**

Curtin University of Technology, Western Australia

**James Guthrie<sup>2</sup>**

**Michael Paton**

Sydney University, NSW

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<sup>1</sup>Dr Anna L. Rowe

Graduate School of Business

Curtin University of Technology

GPO Box U1987

Perth 6845

Western Australia

Email: [Anna.Rowe@gsb.curtin.edu.au](mailto:Anna.Rowe@gsb.curtin.edu.au)

<sup>2</sup>Prof. James E. Guthrie

Accounting and Business Law,

University of Sydney

Sydney

NSW

Australia

Email: [J.Guthrie@econ.usyd.edu.au](mailto:J.Guthrie@econ.usyd.edu.au)

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# PUBLIC ENVIRONMENTAL REPORTING IN CHINA

## ABSTRACT

*Public disclosure of environmental performance is of increasing interest to China's State Environmental Protection Administration (SEPA) due to the gravity of its pollution problems. The State regulatory regime has been perceived by Chinese managers to be the most influential, most complex, and least predictable on organisational environmental performance. Undoubtedly, whilst publicly available corporate environmental reporting (CER) is voluntary, it would appear that environmental disclosures by business enterprises are being undertaken for the government, and not necessarily for the shareholders and other stakeholders.*

*This paper explores the normative assumptions underpinning CER in China focusing on Shanghai utilising a constructivist ontology and an interpretivist epistemology. The data indicate conceptual themes that reverberate well with 'cultural/cognitive institutions' and Chinese cultural norms (informal institutional rules). This paper addresses the literature 'gap' in the empirical study of CER in an emerging nation such as China. The study is limited to an investigation of CER in Shanghai but the implications of this exploratory research is that those seeking to impose compliance to international CER standards and norms, may need to embrace institutional rules that go through a cultural lens.*

**Keywords:** Corporate Environmental Reporting, Institutional Theory, Informal Institutional Cultural Norms, China, Grounded Theory.

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## **1. INTRODUCTION**

Global environmental issues have propelled to the foreground due in part to recent United Nations Intergovernmental Panel on Climate Change coupled with Al Gore's (EIU ViewsWire, 2006) statements on global warming and the Stern review (Stern, 2006). The People's Republic of China (PRC), the world's most populous nation with one fifth of humanity matched by an insatiable appetite for raw materials to boost its economic growth, has a pivotal role in global environmental protection (Diener and Rowe, 2007; Rowe, 2008)).

The PRC is home to 16 of the 20 most polluted cities on earth (World Bank 2001). With this in mind, China's national development strategy for environmental protection has become more focused since the Sixth National conference on Environmental Protection in 2006 (State Council, 2006).

Public disclosure of environmental performance is of increasing interest to China's State Environmental Protection Administration (SEPA) due to the gravity of its pollution problems (Wang *et. al.* 2004). For instance, in 2003 the SEPA issued the Administrative Regulations of Disclosures of Government Affairs for the Competent Departments of Environmental Information, prescribing the principals, contents, procedures, framework, and supervision of disclosures. In January 2008, the PRC's government issued an advisory opinion on mandating corporate responsibility reporting according to the April 2008 report to the United Nations Human Rights Council (UNCTAD, 2008a).

In an empirical study, grounded on senior managers' perceptions of the 'greening' phenomenon, '*Coercive Government Institutional Involvements*' emerged as one of the major influencing factors in corporate environmental reporting in Shanghai (Rowe 2006). The State regulatory regime has been perceived by Chinese managers to be the most influential, most complex, and least predictable on organisational performance (Tan and Litschert 1994).

Whilst publicly available corporate environmental reporting (CER) is voluntary, it would appear that environmental reporting by business enterprises is being undertaken for the government, and not necessarily for the shareholders and other stakeholders.

As an environmental management strategy to communicate with stakeholders, CER can command a pivotal role in the 'greening' of corporate accountability (SustainAbility/UNEP, 2002; Group 100, 2003). For instance, CER has been "best described as a tool to spur corporate policies, strategies and management systems geared to minimising adverse environmental impacts" (SustainAbility/UNEP, 1998, p. 5). According to Mathews and Perera (1995) CER in developing nations is generally voluntary and un-audited. In China, CER is still in its infancy and any form of environmental reporting to the public is predominantly non-mandatory (Xiao and Hu, 2004; Guo, 2005; Xiao, 2006; Li et. al., 2008). Thus, for the purpose of this study, CER will refer to the voluntary disclosure of environmental issues of business enterprises to the public.

There is a lack of empirical studies in English on CER in China. The need for this research has never been more pressing, given the pace at which China is utilising global natural resources to satisfy its development (Chan and Welford, 2005; Xiao, 2006). In 2004, "no other country attracts as much foreign direct investment (FDI) as China does...

(US)\$60 billion” (The Economist, 2005, p. 9). In 2007, FDI inflows reached (US)\$83 billion record high (UNCTAD, 2008).

The main objective of this paper is to explore the normative assumptions underpinning CER in China focusing on Shanghai. More specifically, this study provides the perceptions of senior Shanghai managers and executives of what Chinese environmental values are, and their perceptions of CER in response to environmental challenges in Shanghai. An area of emerging disciplines such as CER in China is rich in epistemological opportunities as this fast developing nation moves through transition towards a mixed economy.

## **2. LITERATURE REVIEW**

Social and environmental accounting research (from which CER evolves) has provided a discerning body of knowledge on CER (e.g., Guthrie and Parker, 1989; Gray, Kouhy and Lavers, 1995; Burritt, 2002; Mathews, 2002; Deegan, 2002; Adams, 2004). However, a large ‘gap’ exists in the literature in relation to the study of CER in emerging nations such as China. The last few years have produced only a couple of refereed journal articles in English with empirical CER research on mainland China. Tansey *et al.* (2004) investigated investor perceptions of the contingent effectiveness of environmental disclosure policies of foreign funded enterprises in Shanghai. It concluded that more transparent CER would reduce perceptions of organisational environmental uncertainty. In another rare empirical study (published in English), 40% of sampled listed companies disclosed environmental data publicly (Liu and Anbumozhi, 2009). The authors cited

government pressure and size of these companies among the determinant factors for CER in China.

However, there have been several studies in Chinese on the lack of CER in China (e.g., Li and Zou, 2001; Luo and Yuwen, 2001; Zhang and Su, 2002; Shao, 2003). Access to such emerging body of knowledge in China can be a barrier to scholars who are unfamiliar with the written Chinese language. Hua Xiao (2006) managed to cite only four empirical studies out of several published papers in Chinese journals. Nevertheless, there are some notable empirical studies on CER in Hong Kong (e.g., Jaggi and Zhao, 1996; Williams, 1999; Chan and Welford, 2005; Taylor and Shan, 2007). The empirical research by Chan and Welford (2005) does include organisations from mainland China that are listed on the Hong Kong Securities Exchange, but only a very small number. It is this lack of empirical studies on CER in China, that the present paper attempts to address.

Several surveys have been undertaken that provide some insights into Chinese CER (Guo 2005). In 2001, Li and Xiao (2002) conducted a questionnaire survey of 124 companies, while Xiao and Hu (2004) surveyed 1195 listed companies in 2003. These surveys show an increase in the number of companies with CER from 34% in 2002 to 37% in 2003. However, Guo (2005, p. 33) cautions that the survey samples “are biased due to a low response rate in most cases. They almost certainly overstate the actual situation.” Indeed, the limited number of empirical studies cited by Xiao (2006) had a low response rate from 5% to 14%. Like most countries, it would appear that only listed companies from

environmentally sensitive industries (e.g., mining, paper making and printing, and fossil fuel users) tend to produce voluntary CER to the public.

Li (2004, pp. 52-53) asserts that the major problems in disclosing environmental information of companies include: the proper measurement of environmental accounting information; the proper allocation of environmental costs; legislation issues; and the lack of environmental accounting standards. The findings of this research appear to echo Li's (2004) assertion regarding barriers in CER.

Since public accountability disclosure of what businesses are doing and planning to undertake are crucial for an economy in transition, and as more international investment is channelled into the Chinese market than ever before, research in CER to the public is needed to raise awareness of the quality of reporting in China (Xiao, 1999; Lin and Wang, 2001; Li, 2004). Several studies have found that whilst compliance with mandatory financial disclosures are fairly high (Xiao, 1999), there are distinct differences between Chinese corporate financial reporting and the internationally accepted norms (Xiao, 1999; Tang and Lau, 2000; Lin and Wang, 2001; Ding, 2002).

Indeed, the information disclosed in financial reporting between A shares and B shares also varies. The B share information is more structured than that of the A shares (dominated by local regulations and customs) because B share financial reporting adheres to International Accounting Standards as financial statements are audited by CPA firms with an international practice, and foreign investors also act as external monitors (Abdel-

khalik, Wong and Wu, 1999). This situation has been confirmed through personal communications with two public accounting partners in Shanghai – namely, Professor Zhou Zhong Hui (PriceWaterhouseCoopers, 1999) and Professor Tang Yun Wei (Ernst & Young Da Hua, 2005).

Nonetheless, CER is certain to be of increasing interest to China in the future. Recent scandals involving foreign financial markets and the Chinese stock market (e.g., China Aviation Oil in Singapore and China Life in New York) have sparked a rethink of the importance of the quality of CER in China (Guo, 2005). In 2006, for example, the Chinese Council for International Cooperation on Environment and Development (CCICED) released a report on environmental governance recommending “environmental audits and annual public environmental reporting” (Lan, Simonis and Dudek, 2007, p. 297).

### **3. RESEARCH METHODOLOGY**

This section discusses the research methodology in dealing with the emerging greening phenomenon of CER and the complexity of the business world today in China. Understanding the social construction and meaning of CER in China requires ‘emic’ analysis, whereas most accounting and management research in this arena is ‘etic’. Whilst ‘emic’ research describes the unique values of a particular society, ‘etic’ analysis applies to generalised theoretical model across several societies (Brislin, 1976; Marshall, 1998).

Thus, to investigate the emerging phenomenon of CER in Shanghai, a *constructivist* ontology was chosen using a modified grounded research approach (Strauss and Corbin, 1990; 1994; Whiteley, 2004). The *constructivist* paradigm can help senior managers and policy-makers discover what is happening, and *why* organizational actors do what they do (Parker and Roffey, 1997), thereby contributing to an ‘emic’ understanding of CER phenomenon.

From the assumptions of constructivism ontology, the appropriate epistemology is therefore interpretivist (Guba and Lincoln, 1994; Lincoln and Guba, 2000). The ‘realities’ presented by the respondents must be interpreted and understood (*verstehen*), rather than empirically measured, and explained (*erklären*).

### **3.1 Research Strategy**

A summary of relevant decisions and related research strategies is presented in Table I. These enabled a focus on the specific methods of collecting and analysing the empirical data (Denzin and Lincoln, 2000 p. 22).

**[Take in Table I about here]**

As a research strategy, the multiple *case study* method facilitated the understanding of the dynamics of the participant response to CER within their organisational case settings. This was particularly relevant in China where CER is at an embryonic stage with little empirical evidence in existence (Guo, 2005; Chan and Welford, 2005). Moreover, the case context allowed the researcher to use ‘controlled opportunism’ to respond flexibly to new discoveries made in collecting emerging data (Eisenhardt, 1989 p. 539; Dutton and

Dukerich, 1991). Whilst case studies can combine data collection methods such as archives, interviews, questionnaires, and observations, and the evidence may be qualitative (e.g., words), quantitative (i.e., numbers) or both, this study focused on qualitative (text and observation) evidence.

Noting the weaknesses in case study method in relation to linking data to the criteria for interpreting findings, this approach had been supplemented with a grounded research approach using systematic data preparation and management (Strauss and Corbin, 1990; 1994; Whiteley, 2004). A grounded research approach “is a general methodology for developing theory that is grounded in the data systematically gathered and analysed. Theory evolves during actual research, and it does this through continuous interplay between analysis and data collection” (Strauss and Corbin, 1994 p. 273).

This study utilised the principles of the original Glaser and Strauss (1967) grounded theory, but did not replicate in detail the research processes. Considering the nature of the business organisation being researched, there were antecedents impinging on the method that affected the extent of emergence. In other words, some forcing of constructs occurred simply because of the existing meaning, structures and functions operating as the organizational framework.

Whilst a modified version of the original grounded theory was adopted for this exploratory study, the basic framework was kept in terms of allowing important

responses to emerge in institutionalised settings. This allowed the sifting and analysis of a large amount of data in non-standard and unpredictable formats.

The units of study, in this instance, were the senior managers and executives interviewed in fifteen enterprises operating in Shanghai. The qualitative research interviews were an effective way of tapping the thoughts of a number of subjects and so examining how they each perceived the reality of CER and the meaning that they construed around the perceived reality. In order to reflect the diversity of companies in Shanghai, the fifteen organisational cases selected for this research were of different types and sizes. Table II depicts the three main types of enterprises and the number of enterprises (cases) from which senior managers were interviewed in Shanghai.

**[Take in Table II about here]**

Senior managers and executives from fifteen enterprises were interviewed between 2001 and 2005. Further informal contacts in Shanghai were made in 2007. The fieldwork involved three weeks of preliminary interviews (in Beijing and Shanghai), followed by main interviews (ranging between 45 minutes and 2 hours each), and many hours of informal contact and discussion over the years of the project. The interviews were audio taped whenever possible and field notes were immediately documented within 24 hours, so as not to lose the vital nuances and cues observed. The taped interviews were transcribed and rigorously reviewed for errors by both the researcher and Chinese translators. Tapes were carefully listened to following the Strauss and Corbin (1990) framework, and corrections were made. The trustworthiness of transcripts was carefully assessed following Poland's (1995) methods.

The voluminous amount of textual data derived from the transcribed interviews, observations, field notes and documents of the fifteen case-study companies was managed using a software package - NUD\*IST Vivo (NVivo). One of the major advantages of using NVivo software was its capability to alleviate the problem of 'drowning in data' by allowing data to be allocated into categories, which provided a more streamline structure for discovering emergent themes.

The researcher was at all times sensitive to the needs of cultivating a trusting environment between the respondents and the investigator. Only the views of the most senior managers/executives of each of the organisations were taken into account for each case (unless contrary views by majority of managers prevailed), while the data gathered from the rest of the managers (within the same enterprise) took on a supportive role. Hence, prolonged engagement added to the rigour and trustworthiness of the data collected in Shanghai (Lincoln and Guba, 1985).

Senior managers and executives were targeted as they were likely to possess 'emic' knowledge (i.e., the interpretations and attributions of meaning of the participants to the research) about the response of their organisation to the greening of management and reporting. The United Nations Educational, Scientific and Cultural Organisation (UNESCO) office in Beijing stated that: "company managers are a key target group of major importance to the environmental situation in China" (Hebel, 2003, forward).

Locating the field research in Shanghai was opportunistic as the researcher has been conducting Master of Business Administration study tours there for a number of years. Moreover, Shanghai is the most economically dynamic city with the greatest level of investment on environmental protection in China – 3% of GDP (SMEPB, 2002). In fact, Shanghai is poised to become a ‘Sustainable City’ and possibly, the ‘green capital’ model for China (Yuan and James, 2002). Beijing, the Olympic city of 2008 has also been striving towards environmental sustainability.

### **3.2 Scope and Limitations**

This field research relates to the particular point in time (between 2001 and 2005) in which the study was conducted. The context of the study is limited to CER. What is reported in this paper reflects the views, attitudes and the perceptions of senior managers and executives. The primary respondents’ ideas and ‘theories were triangulated with the views of “outsiders” and publicly available information (e.g., Chinese Statistical Year book, press releases). “Outsiders” were those individuals informed about environmental issues, who may have had different perspectives than the primary corporate data sources (e.g., environmental protection officials, the Australian Consul-Generals and Senior Trade Commissioners in Beijing and Shanghai).

It must be noted that due to the perceived sensitivity of both private individual opinions in China and the environmental management issues for some respondents, ‘politically correct’ responses might have prevailed either intentionally or unintentionally. Ontologically, “realities are apprehendable in the form of multiple, intangible mental

constructions” (Guba and Lincoln, 1994, pp.109-110). Hence, when the epistemology on which the research stands is interpretive in nature, these limitations take on a different character (Rowe, 2006).

One final limitation of this study is that it is situated in Shanghai. Historically, Shanghai attracted European influence in attempting to colonise China in the eighteenth and nineteenth centuries. Thus, there is possibly a more Western sensibility there, and for that reason CER as a Western phenomenon may have more credence in Shanghai than in other parts of China.

#### **4. RESULTS - CORPORATE ENVIRONMENTAL REPORTING IN CHINA**

This section reports on the normative assumptions underpinning CER in China focusing on Shanghai. Findings from this study provide the perceptions of senior managers and executives on what Chinese environmental values are, and their opinions of CER as a strategy in response to the environmental challenges in Shanghai. The scanty evidence of voluntary external environmental reporting to the public (i.e. in annual reports, stand-alone or website reports) by companies operating in Shanghai that surfaced from the large amount of data should not be misconstrued as implying an absence of environmental policy. In fact, 60% of participating enterprises confirmed that they had environmental policies in place, some being quite detailed. However, many of these organisations did not publicise their environmental policies, least of all disclose their environmental activities and impacts to the general public.

For instance, a General Manager (interview #03) states that his: “*company does not disclose its environmental matters publicly in its annual report ... but we have to report to the relevant Shanghai Municipal Environmental Protection Bureau (SMEPB).*” Also, “*depending on the enterprises, I think the SMEPB requires certain minimum environmental reports on how the company is managing its environmental problems*” (interview #04).

It is instructive to note that annual reports are primarily targeted at regulatory government bodies, not necessarily the shareholders, probably a legacy of a centralist communist state in transition to a social market economy. In addition to Format A mandatory environmental reporting to government officials, since 2004, ‘dirty companies’ as identified by the State Environmental Protection Administration (SEPA) are ‘encouraged’ to voluntarily disclose Format B environmental reporting publicly on company websites.

The general findings of the study drew attention to the incentives and barriers for voluntary external CER. In understanding CER as perceived by senior managers in Shanghai, several widely used theoretical approaches in the CER literature were considered, including *legitimacy theory* (Guthrie and Parker, 1989; Patten, 1991; Deegan, Rankin and Tobin, 2002) and *stakeholder theory* (Ullmann, 1985; Roberts, 1992; Donaldson and Preston, 1995). However, as will be discussed in the next sub-section, these findings from the data appear to reverberate well with *institutional theoretical*

approach (Deegan, 2002; Rowe, 2002) in understanding the ‘embryonic greening’ phenomenon of CER in Shanghai.

In explaining ‘*why*’ organisations voluntarily report publicly on environmental management, *legitimacy theory* and *stakeholder theory* tend to complement each other as both take into consideration how organisational behaviours respond to demands of divergent interest groups, and act to legitimise their actions (Guthrie and Parker, 1989; Patten, 1992). Understanding motivation for disclosure has been attracting considerable research attention, and the desire to legitimise an organisation's operations in managing stakeholder demand has been one of the many possible incentives (e.g., Guthrie and Parker, 1990; Gray, Kouhy and Lavers, 1995; Deegan, 2002; O'Donovan, 2002).

The following quotations from some of the interviewees illustrate the incentives and drivers for CER to the public that ‘legitimise’ the business operations (i.e., legitimacy theory) by conveying a symbolic message (i.e., institutional theory) and management of stakeholders:

*// extremely sensitive to media coverage // public pressure and image //...it's our reputation // to portray yourself as a very responsible corporate citizen // community acceptance // industry need to have an image with the public that we are responsible in our ways of dealing with the environment //*

In this in-depth study 40% of the 15 companies identified the following major incentives for CER: reputation, competitive edge, public needs to know, corporate citizenship, shareholder value and executive's performance. These main reasons for producing CER (whether in annual reports, stand-alone or websites) echoed the body of knowledge in the literature (e.g., Gray, Bebbington and Walters, 1993; KPMG, 2002; Group 100, 2003).

However, upon 'peeling the onion' further and discovering the deeper revelation from the Shanghai context, legitimacy theory and stakeholder theory as we know from the rational and legitimate generalized view cannot be conveniently and conclusively used for this study. Hence, the complexity of the interaction between the rational and legitimate (i.e., generalized universalist), and the relational and adaptive (i.e., particularist local circumstances) cannot be understated.

From a generalized 'etic' approach (Brislin, 1976; Trompenaars, 1993; Cutz and Chandler, 2000), it would appear that the findings from this in-depth study lend support to the widely utilised theoretical concepts (particularly, legitimacy and stakeholder theories) in CER. The question that begs answers is whether legitimacy theory, stakeholder theory and even institutional theory are seen in the same way by business enterprises in Shanghai. This is especially the case in a situation such as China where there is scanty and inadequate voluntary CER to the public domain (Xiao and Hu, 2004; Guo, 2005; Chan and Welford, 2005) with it functioning in a more 'particularist' (Trompenaars, 1993) localized culture.

In attempting to address these questions that arise from the findings, it is necessary to return to the literature and paradigmatic assumptions implicit in CER. The theoretical concepts of legitimacy, stakeholder and institutionalization are part of social and political theory studies within the canopy of 'system-oriented' theory (Gray, Kouhy and Lavers, 1995; Deegan, 2002; Parker, 2005). These widely cited theories within the CER studies are generalized Western concepts, springing possibly from structural sociology by Durkheim (1958) in Europe and Parsons (1951) in America.

In contrast to this predominantly universal generalized Western approach, organizations in Shanghai operate within a more 'particularist' and 'emic' localized environment (Trompenaars, 1993). Hence, the perceptual construction of the realities of senior managers in this study is not a time-and-context-free generalization. With these unique Chinese circumstances in mind, we can only begin to understand (another dimension of embedded context) as to why business enterprises in Shanghai do not normally produce CER to the public.

#### **4.1 Why not produce CER?**

Findings from this study relating to the perceived barriers of the respondents for not producing CER in Shanghai appear to resonate well (to a certain degree) with the body of knowledge. However, whilst there has been a plethora of papers on the stimulus for CER supported by theoretical arguments for explaining such incentives, there is no definitive theoretical conceptual framework upon which to offer insights as to the possible reasons for non-reporting, particularly in an emerging nation like China.

Nonetheless, there are some noteworthy studies that have attempted to identify the barriers for CER (e.g., Gray, Bebbington and Walters, 1993; WICE, 1994; SustainAbility/UNEP, 1998; Synnestvedt, 2001). These studies present compelling reasons that are not particularly dissimilar to those provided either explicitly or implicitly by the respondents from the in-depth field research in Shanghai (see, Figure1).

**[Take in Figure 1 about here]**

As can be discerned from extracts of participants' reflections reproduced below and as illustrated in Figure 1, the perceived main reasons inhibiting CER in Shanghai were: the absence of legal requirements; lack of stakeholder demand; competitors not reporting; not perceived as environmentally exposed; sceptical about advantages to enterprises; costs; not part of executive performance measures; and secrecy. Fifty-three percent of companies interviewed provided reasons for not reporting on corporate environmental issues, which included the following:

*//...not normal practice to report to everyone about environment // only report if required by law // we have not thought about it // environmental protection programs most costly // report if shareholders are interested in environmental disclosure // I am not being assessed for good environmental practices...it will reduce our profit margin // ...company is not public...so we are not required to disclose // it is expensive and takes time to set up an environmental system // I think we don't have any environmental pollutions // shareholders are more interested in financial bottom line // this report is too confidential, I can only let*

*you read it // management reports only, not for anyone in the public // no demand for it // not operating in a risky business // for internal management use only // we don't want our competitors to get hold of the information // waste of time and resources // If our major competitors are publicly reporting on environmental protection and other environmental practices, then we may think about following...//*

Drawing on theoretical sensitivity (Glaser, 1978) grounded in the data, *institutional theory* appears to be a plausible explanation for the resistance to external CER in Shanghai. The findings compel the inquirer of this study to explore a tentative theoretical conceptual model in an attempt to understand this phenomenon in Shanghai, given the paucity in established theoretical concepts in the literature, capable of offering an insight into the non-reporting of corporate environmental issues.

Institutionalization is a process of social construction by which individuals come to accept a shared definition of social reality that includes “the way things are,” “what is important” and “the way things are done” (Scott, 1987, p. 496). The institutions determine how business leaders act in accordance with the rules set out, while individuals devise strategies to survive or win in society (North, 1992).

As a result of orthodoxy developing from institutional rules or expectations, several studies have illustrated how institutional characteristics become articulated, enduring, and resistant to change over time (Tolbert and Zucker, 1983; Tolbert, 1985). In fact, “the

general theme of the institutional perspective is that an organization's survival requires it to conform to social norms of acceptable behaviour" (Covaleski and Dirsmith, 1988 p. 563).

The barriers to corporate change, in this case CER, have been collectively referred to as 'resistance' by some theorists (e.g., Oliver, 1991; Hoffman, 2001). Resistance to the emerging CER in China may stem from institutions (Scott, 1995) embedded within organisations and social structures. According to institutional theorists (e.g., Tolbert and Zucker, 1983; Scott, 1987; North, 1992) 'formal' institutions relate to environmental laws, rules, government agencies and standard operating procedures; while 'informal' institutions are the unwritten habits, customs and accepted norms that guide organizational action. Such a 'duality of structure' (Giddens, 1984) is also reflected in the Chinese culture, where their day-to-day "activities take place within an ongoing system of rules, norms, practices and resources" (Weaver and Gioia, 1994, p. 578).

DiMaggio and Powell (1983) have defined institutional 'isomorphism' as a process through which organisations in the same line of business become homogeneous (i.e., adopt similar norms). The consequence is that this endorsed social reality can generate constraints preventing organisational development in other courses of action (Fogarty, 1992, p. 333).

Evidently, public accountability by way of CER in Shanghai is "*not a normal practice*" (interview #13). Hence, in line with Oliver's (1991, p. 169) proposition: the lower the

level of voluntary diffusion of institutional CER among business enterprises, the greater the firm's resistance to institutional pressure for CER.

Studies by Fligstein (1985), Tolbert and Zucker (1983), and Knoke (1982) have illustrated how organisations are more reluctant to conform to particular reforms (e.g., CER) when these changes are not widely diffused. Rowan (1982) describes diffusion as "institutional building" because it involves the creation of definitions and rationalisations. Diffusion is said to portray the dependency of current events and occurrences upon previous ones (Fogarty, 1992).

Upon being asked as to why companies in Shanghai were not publicly disclosing environmental issues, a director (interview #01) remarked that "*if our major competitors are publicly reporting on environmental protection and other environmental practices, then we may think about following.*" This mimetic institutional (DiMaggio and Powell, 1983; Zucker, 1987) process is largely influenced by the fact that the less widespread the practice of CER in China, the greater the tendency for organisations to resist such a business activity. Past studies have identified the importance of 'mimetic isomorphism' - the mimicry adoption of institutional rules and norms (Zucker, 1987; Covaleski and Dirsmith, 1988).

In situations of moderate diffusion, it is not uncommon for companies to compromise on the level of conformity or attempt avoidance tactics, such as adopting ceremonial conformity or lip service to environmental pressures (Oliver, 1991). Such a 'low level'

symbolic gesture “implies that minimal as opposed to detailed environmental disclosures may be more likely to form part of a legitimacy process aimed at appeasing the concerns of less powerful ‘relevant’ stakeholders such as environmentalists and NGOs” (O'Dwyer, 2003, p. 98). Such appeared to be the case, at least to a limited extent in Shanghai.

For instance, a General Manager (interview #03) contended in an interview that tree planting along the Suzhou Creek was an indication of superficial conformity to environmental pressures. This ceremonial greening of Suzhou only scraped the surface of the deep rooted environmental disaster of land and water contamination through decades of toxic effluence being discharged by small “dirty” factories.

However, in all fairness to the SMEPB, since the commencement of this study in 2001, the researcher’s annual visits to Shanghai and Suzhou, visual observation and anecdotal communications with environmental consultants there appear to suggest that the environmental condition of Suzhou Creek is indeed improving. In addition, the Asian Development Bank loan of US\$300 million has helped in cleaning up the heavily polluted Suzhou Creek (China Economic Review, 2005).

Jennings and Zandbergen (1995) have noted that the demarcation is blurred in determining when the need to conform to industry standards between normative isomorphism (in order to survive) starts, and when belief in competitive advantage (which drive mimicry) ends. The isomorphic trend towards green strategic change, which generally derives from a particular visible industry (e.g., utilities, petrochemical, mining

and transport) permeating initially among the competitors, is a type of normative conformity and mimicry. DuPont, for instance, one of the world's leaders in industrial and occupational safety, has been known to develop cutting edge innovative environmental practices, which others, including its competitors, emulate and benchmark. This situation is reflected in the remarks of executives from similar transnational organisations interviewed in Shanghai.

This appears to be a non-choice behaviour since, in extreme cases, gaining legitimacy to remain in business may depend on the organisation's ability to conform to higher environmental standards put into practice by these innovative leaders. 'New institutionalism' highlights ways in which external norms and regulations are reflected in organizational practices (Power, 1991; Selznick, 1996).

On the other hand, the findings suggest that the Chinese government's enforcement of compliance to environmental protection regulations appears to be spatial and ineffective. Hence, organisations in Shanghai were not deterred by the sanctions for non-compliance behaviour. For that reason, leading edge CER practice by corporate leaders will not be swiftly imitated or embraced. Thus, for organisations in emerging nations such as China, the institutional norm in environmental protection among most corporations is to adopt the "business as usual" scenario.

In the context of taken-for-granted norms and beliefs, institutional theory is capable of explaining the 'nonchoice behaviour' of senior managers (Oliver, 1991, p.148). As such,

it is plausible to utilise institutional theory to better understand an organisation's conformity to institutionalised beliefs or practices in Shanghai, thus, conforming to the status quo – business as usual scenario in CER. This is particularly the case where these beliefs or practices are so externally validated and accepted by organisations as to be invisible to the actors they influence (DiMaggio, 1988), or their 'social fact' quality renders them the only conceivable 'obvious' or 'natural' way to conduct an organisational activity (Berger and Luckmann, 1967; Zucker, 1977, 1987; Oliver, 1991) of 'low level' CER.

Reluctance by organisations to report environmental information is analogous to the barriers cited for not pursuing corporate financial disclosure in the late 19<sup>th</sup> and early 20<sup>th</sup> centuries (Solomon and Lewis, 2002). Regulatory reforms and standardisation to corporate financial reporting have developed. It is now the norm. The question is whether CER will follow the same trend.

One further possible reason for the lack of CER reporting in Shanghai is the environmental history of China. Elvin (2004) argues convincingly that China had destroyed much of its natural environment by the late imperial period evidenced by an unprecedented rise in the frequency and depth of famine in the eighteenth century. With modern scientific means, however, China is able to feed its population, so perhaps there is an unspoken feeling in the management elite in Shanghai that as long as the modern economy is still thriving sufficiently to feed the population, CER remains unimportant.

It would appear that a deeper understanding of Shanghai's CER can also be gleaned from the respondents' embedded informal institutional cultural norms. This is particularly the case where there is paucity and inadequacy in voluntary CER to the public (Xiao and Hu, 2004; Guo, 2005; Chan and Welford, 2005) operating in a more 'particularist' (Trompenaars, 1993) localized culture. Is there a different attitude to the need for CER considering the emerging 'secrecy' category of the cultural theme that illuminate from this in-depth study?

## **5. INFORMAL INSTITUTIONAL CULTURAL NORMS**

In this study, theoretical ideas (Glaser and Strauss, 1967) were allowed to emerge to give '*verstehen*' or understanding about the conceptual theme of *Cultural Norms* (informal institutional norms/rules) that contributed to CER. A pervasive Chinese cultural theme came to light subtly throughout the field interviews and continued to evade the researcher's theoretical sensitivity (Pope and Gilbert, 1983; Locke, 2001) until some respondents commented categorically about the importance of "*Guanxi*" and "*relationships*" in the management of environmental issues in business.

**[Take in Figure 2 about here]**

Figure 2 demonstrates the emergent conceptual theme of *Cultural Norms* (informal institutional rules) and its relationship with the three supporting categories – *Guanxi*, *trust and secrecy*. These categories were themselves, interconnected in an important Chinese cultural tradition that was embedded in the informal norms of CER in Shanghai. This resonates well with Scott's (1995) 'cultural/cognitive institutions' and the taken for granted informal rules/norms (Scott, 1995; Meyer and Rowan, 1977; Zucker, 1983).

The embedded conceptual theme of Chinese cultural norms (informal institutional rules) – that is, “the Chinese way things are done” was seen from the manner in which respondents constructed categories of meaning around *Guanxi*, trust and secrecy. In Chinese cultural norms, the unspoken words sometime held more credence through inferences and unwritten codes of conduct. For instance, the obliging action of a busy respondent (interview #01) probably spoke louder than words, if his actions and comments were anything to go by. The director said that: *“I do not usually give interviews like this except, ah, that my business associate requested that I assist you with your research in China. I have postponed my trip to Beijing today because I wish to honour her request.”*

During the field study, *Guanxi* (or the ‘silken thread that holds humanity together’) manifested itself in different ways, though not blatantly obvious to the researcher initially until further reflection, as these gestures were not consciously captured by spoken transcribed words and field notes written about observations. Such an unspoken communication reflecting hidden meanings beyond words of the text, must be viewed in context for true decoding to take place (Kets de Vries and Miller, 1987). According to Church (1999, p. 8), the theoretical principles behind the attribution of Chinese ‘hidden meanings’ or ‘communication without words’ derives partly from the hermeneutical tradition of Confucius’ judgments on historical events and the belief that the sage hid such meanings in the text.

In examining the emerging CER phenomenon of enterprises in Shanghai, it soon became apparent to the researcher that “*it is very important to understand the culture of China*” (interview #22), that is, the significance of taking into account, the Chinese way of doing business, their philosophies, customs and their perceptions of law, justice and dispute resolution. The hidden meanings of participants’ nonverbal communication (through their nuances and actions) illuminated the implied underlying relevance of the Chinese cultural norms. This is notwithstanding the fact that only 27% of companies who participated explicitly mentioned the importance of *Guanxi* and secrecy in the interviews. These salient characteristics resonate well with a culture that has its origins emanating from centuries of traditional influences, including Confucianism, Daoism and Legalism.

Confucian family values of leaving the best for their children have been known to play a role in protecting the environment. “Parents have the responsibility to hand down a cleaner and less polluted environment to their children, and environmental protection becomes a means to protect their children” (Hsiao et al., 1999, p. 216). Polluting enterprises have been condemned for threatening descendents of the community.

The long embedded laws of nature in Daoism’s philosophy provide a metaphysical basis for environmentalism. Some of Laozi’s (the founder of Daoism) proverbs possess ‘greening’ connotations. For instance, according to Ip (1986, p. 101), Laozi’s famous saying “a tower of nine storeys begins with a heap of earth. The journey of one thousand li (miles) starts from where one stands,” has been interpreted as meaning “things simply

work in accordance with the law of nature. Anyone who tries to do things in violation of the laws of nature is doomed to failure.”

The authoritarian attitudes of Legalism, a political philosophy that underpinned the development of imperial China, aid in the understanding of the reason for secrecy and hidden meanings. Han Fei, the most famous proponent of Legalism argued against the Confucian idea that people were basically good and that all that was needed for a healthy society was education to develop that goodness. Han Fei, in contrast, argued that humanity was selfish at the core and only ruthless control could allow the State to function (Graham, 1989). Interestingly, Han Fei was one of Mao Zedong’s favourite traditional Chinese philosophers, and the trials and tribulations of the Cultural Revolution and the experience of Tiananmen Square in 1989 seem to be based as much on Legalist thought as any Western authoritarian ideas.

Given the long entrenched Chinese customs of Confucianism, Daoism and Legalism, the informal institutional cultural theme of ‘Guanxi and Trust’ (see, section 5.1) and ‘Secrecy’ (see, section 5.2) that come to light as prominent characteristics that impact on CER practices in Shanghai, will be discussed in the following sub-sections.

### **5.1 Guanxi (关系) and Trust (信任)**

Contemporary China inherits a distinct cultural legacy characterized by: ‘particularism’ (Trompenaars, 1993) in focusing on localized ‘emic’ values (Brislin, 1976) of building up trust through cultivating personal relationships; collectivism; ‘ascription’ oriented respect

for hierarchy; and a strong sense of national identity (Pye, 1985; Boisot and Child, 1988; Lockett, 1988; Trompenaars, 1993).

The relevance of *Guanxi* cannot be ignored in the business environment in which companies operate in Shanghai, as noted by some of these participants' quotations:

*// ... so important, Guanxi // because of relationships, that is very important //*  
*Guanxi business relationship // build good relationships //*

In China, “*Guanxi* business relationship” (interview # 15) cultivated by executives provide the informal institutional norms that may play a greater role in assisting economic exchanges as evidenced by a more significant impact on organizational performance (Peng and Heath, 1996; Peng and Luo, 2000). This network of personal connections seems particularly imperative to managers in countries without stable formal institutional rules such as transparent laws and regulations (Zucker, 1988; Xin and Pearce, 1996; Peng and Luo, 2000).

Whilst *Guanxi* has been utilised to facilitate environmental management, it can also be abused in avoiding compliance. There have been studies of how investors from Taiwan and Hong Kong employed the ‘Chinese way’ of getting things done to circumvent laws (Pearson, 1997, p. 108). In this study, a business manager conceded that *Guanxi* enabled him to operate his factory in Shanghai with minimum interference from local authorities. His *Guanxi* was assured by his being born to a Communist party official family in a

nearby province and he contributed a “monthly fee” (not particularly dissimilar to political donations in the Western world) to local officials.

These social connections can be regarded as cultivating relationships with EPB (Environmental Protection Bureau) officials (Jahiel, 1997; Ma and Ortolano, 2000) or as providing ‘grease for the wheels’ (Seligman, 1999) or lubricant to reduce transaction costs (Williamson, 1985) in compensation for lack of formal institutional support such as unequivocal law and regulations (Xin and Pearce, 1996; Peng and Luo, 2000).

Particularly in a nation like China, trust (*Xinren/Xinyong*) and commitment are secured by preservation of ‘face’ (*mianzi*) and the unspoken rules of reciprocity (*renqing*) (Luo, 1997; Luo, 2000; Ma and Ortolano, 2000). The Chinese concept of personal trust (*Xinyong*) relates to the integrity, credibility, trustworthiness, or reputation and character of a person (Tong and Yong, 1998). A person perceived by others as possessing *Xinyong*, will enjoy ‘favorable ethical judgment’ (Leung, 2004, p 62). The following extracts from some of the senior managers/executives exemplify the importance of trust:

*// Honesty...let them trust you and they will come and help // I think that at first you shall get the trust from the customer // earn Chinese governments’ trust //*

The essential roles of *Guanxi* and trust manifest themselves in the sound relationship between the SMEPB and the case company in interview #13 (emphasis added) who assert that “*the projects we are doing have very select relationship with the environment for*

*protection, but to save the waste water treatment, definitely.” Hence, the relevance of “long-term business plans that include...profit growth, **good relationship** with the governments to earn Chinese governments’ **trust** and understand the Chinese culture of building a **long history of trust**” (interview #22, emphasis added).*

Permeating from this *Guanxi* and trust cultural theme of localized ‘emic’ value is the Confucian collective value of keeping business information within the family or an ascribed group within the network. The next section elaborates on the secrecy concept of the cultural theme that surfaced from the data.

## **5.2 Secrecy**

The discovery that secrecy and resistance to reporting sensitive information on environmental issues in Shanghai resonates well with several authors in CER studies (e.g., Gray, Owen and Maunders, 1988; Perera and Mathews, 1990; DTTI/IISD/Sustainability, 1993; Gray, Bebbington and Walters, 1993; Ball and Bell, 1995; Solomon and Lewis, 2002).

It is undeniable in practice that secrecy relating to environmental pollution within industry has been substantial and has also been prevalent to environmental legislation (Ball and Bell, 1995). Historically, secrecy has been endemic in environmental reporting.

Barriers to CER such as ‘reluctance to report sensitive information’ and ‘no legal obligation for companies to report environmentally’ as evidence from the respondents in

Shanghai were also confirmed in a U.K. study by Solomon and Lewis (2002). It has been found to be the most significant disincentive for CER.

The information pertaining to a company's environmental management is guarded knowledge "*for internal management use only, not available to the public*" (interview #05). This is due to the fact that "*this report is too confidential*" (interview #22) and "*we don't want our competitors to get hold of the information*" (interview #05).

Secrecy is a threshold to knowledge, which is both disclosed and guarded (Feuchtwang, 2002). McDougall and Hansson (2002, p.215) assert that: "The content of what is hidden within the threshold of secrecy is not just the expertise of the inventor, the guru, the Daoist, the geomancer, it is a relationship of transmission and effect. This is privacy as guarded but known treasure."

Utilizing Hofstede's (1980) cultural models, Gray (1988) hypothesizes linkages between cultural values and accounting sub-cultural values of secrecy. Gray (1988) places the accounting development and practice of China within the cluster that supports statutory control, uniform practices, a conservative measurement approach and secrecy in disclosure. It would appear that "the extent of disclosure... seem to differ between countries in line with differences in the value orientations of the preparers of these reports" (Perera and Mathews, 1990, p. 230).

In China, where reasonably high uncertainty avoidance coupled with high power distance and low individualism prevails, a higher propensity exists for greater secrecy in disclosures (Hofstede, 1980; Gray, 1988; Chow, Chau and Gray, 1995). This explains in part the scant amount of voluntary CER (as opposed to a more transparent, open and publicly accountable approach) in Shanghai, other than the obvious reason that it is not mandatory for companies to disclose environmental issues to the general public.

Loyalty to the ruler and superior with respect for hierarchy as characterized by Confucianism in Chinese society is an ascription-oriented culture (Trompenaars, 1993), and has been categorised by Hofstede (1980, 1984) as high power distance. This restriction of information to preserve power inequalities is almost analogous to political economy theory's conflict in society that exhibits the power of pressure groups (Puxty, 1986). Such traditional respect for hierarchy stems from the Confucian philosophy of achieving harmony by conforming to the norms prescribed for an individual's role in the society.

“Chinese by nature have a strong inclination to avoid uncertainty” (Chow, Chau and Gray, 1995, p. 39). This reflects Hofstede's societal value of high uncertainty avoidance due to “a need to restrict information disclosure so as to avoid possible conflicts, limit the uncertainties of competition and preserve security” (Williams and Tower, 1998, p. 264). A preference for secrecy is possibly also consistent with collectivism (low individualism), reflecting confidentiality and restriction of information to the interest group most closely involved with the enterprise's management as Chinese people have a

strong sense of collectivism belonging to a group (Chow et. al., 1995). This is akin to the *Guanxi* concept of relationship building that tends to guard knowledge and information (secrecy) within an ascribed collective group, possibly “*for internal management use only, not available to the public*” (interview #05).

## **6. CONCLUSION**

As can be gleaned from this in-depth field study, CER activities in Shanghai are still at the embryonic stage of progress as indicated in the literature. The findings appear to imply that whilst the formal institutional rules are in place for CER to the government (especially for the more environmentally exposed enterprises), voluntary CER to the public has yet to attain institutional norm. Weak enforcement of environmental protection laws does not encourage the isomorphic institutional diffusion of CER. Therefore, according to institutional isomorphism (DiMaggio and Powell, 1983; Hoffman, 2001), the less prevalent the practice of CER in China, the greater the tendency for organisations to resist such a greening business activity. This is compounded by the informal institutional cultural norms that impact on CER.

Understanding of the cultural norms (informal institutional rules) have enhanced our understanding of the normative assumptions underpinning CER in China, as perceived by senior managers and executives in Shanghai. The emergent theme as articulated by the participants in the Chinese context indicates that CER in Shanghai is influenced by informal institutional cultural norms (i.e., *Guanxi, trust and secrecy*). This embedded informal norms of CER resonates well with Scott’s (1995) ‘cultural/cognitive

institutions' and the taken for granted informal rules/norms (Scott, 1995; Meyer and Rowan, 1977; Zucker, 1983). *Guanxi* business relationship building and trust cultivated by senior managers are a catalyst for the tendency to guard knowledge and information (secrecy) of environmental issues within an ascribed trusted collective group. Guarded knowledge, valued as esoteric or honourable secrets, has to be disclosed, transmitted and made known, but not to be revealed to all.

The implication of this is that those seeking to impose compliance to international environmental standards and norms, particularly those incorporated in CER, may need to embrace the paradox of rules both as generalized as well as contextual entities. It would appear from this qualitative study that institutional rules go through a cultural lens before reaching individuals who have to implement them.

The informal institutional cultural norms indicated by this research also raise the question as to what circumstances and in what way these cultural norms can help to strike a balance between economic development and environmental management during China's dynamic transitional period. It seems to be held by top leadership of China that traditional values can help to amend the current social and environmental crisis and construct a 'harmonious society'. However, this is beyond the scope of this paper.

This field study in understanding CER in Shanghai is, but exploratory research at an exciting period during China's dynamic transition to a market economy with its corresponding social and environmental issues. It should be remembered that Shanghai is

a comparatively Western city in that it was developed into a port city by the Western influence in the nineteenth century. Thus, it would be difficult to project the findings here to China in general. Nevertheless, this exploratory study does give a glimpse into an understanding of the scale of economic growth and business potential in China with its population of 1.32 billion people (EIU ViewsWire, 2007) and energy resource constraints (Zhang et al., 1999) to provide “telescoping” lessons that enable us to better understand CER in developing countries.

This is an opportune time for more comprehensive research encompassing several business sectors in different Chinese regions, which goes beyond the economic and environmental aspects and includes triple bottom line sustainability. Moreover, as an emerging economic powerhouse with key stakeholders (e.g., China Business Council for Sustainable Development, UN Global Compact), companies in China too are compelled to gravitate towards world-class institutional norm and greater accountability through CER.

## APPENDIX

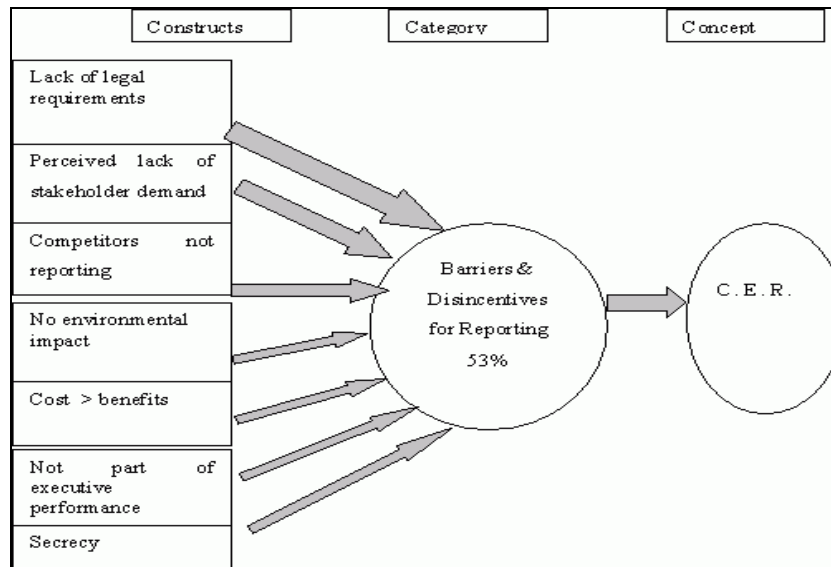
**Table I: Research Strategies**

Nature of Decisions	Chosen Research Strategy
Location/object of research (Boundary of phenomenon)	Multi-Case study; and Grounded Approach
Nature of researcher (Observer, actor or 'other')	Interactionist sometimes observer, and sometimes participant in discovery
Nature of theory in study (Emergent and inductive or validation and deductive)	Emergent (inductive) not validation (deductive), exploratory, no a priori 'facts'.

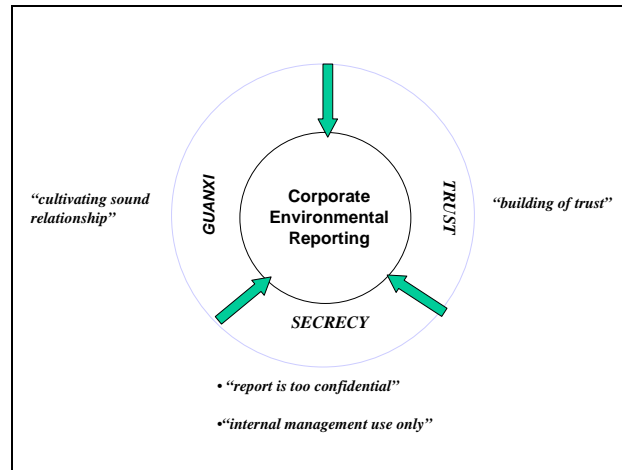
**Table II: Types of Case study Enterprises Interviewed**

Types of Enterprises	No. of Enterprises
Chinese Private and State-owned Enterprises	7
Joint-venture	1
Multinational Enterprises	7
Total cases	15

**Figure 1: Barriers for CER**



**Figure 2:** Cultural Norms (informal institutional rules)



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