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CSR and S&E engagement in emerging economies:
Analysis of a case study based in China.

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ABSTRACT.

This working paper analyses firms operating in China, concerning social and environmental engagement, stakeholder relations, and corporate social responsibility (CSR) strategies and options, along with their underlying mechanisms, viz. predictors, mediators, moderators and outcomes. This is effected through the study of a unique case of one firm, using data collected from internal staff and external stakeholders. The results show that firms' resources and values can act as a mediator; their high visibility and scale can act as a moderator; and in weak institutional contexts, their self-regulation can act as a predictor. The findings also show that employees' perception of the firm's leadership as visionary can act as a mediator, and that the vision, values and beliefs of the shareholders, and their (mis)alignment with those of the CEO, can act as moderators. The paper concludes with a set of recommendations for policy makers and practitioners, and suggestions for future research.

Key words: sustainable development – investors – China – CSR – emerging markets.

INTRODUCTION.

The literature on Corporate Social Responsibility (CSR) has been shifting away from asking existential questions about “whether firms should engage in societal challenges to whether and how communities benefit from organisational interventions in addressing seemingly intractable challenges” like the natural environment, wellbeing and health, education, energy, etc. (Wang, Tong, Takeuchi, & George, 2016, p. 539). This new direction brings unprecedented challenges to firms; in particular, managing risks, settling the boundaries of social action, prioritising competing stakeholders, and, for Multi-National Corporations (MNCs), adapting to the subtleties of varying social settings. There are two main sources of this variation: the evolution of views on CSR within a given national context, and the evolution of CSR within different institutional settings, particularly emerging economies. Amongst these, China is the one whose rapid economic development and the associated social and environmental (S&E) impacts have led to questions about whether its firms’ S&E engagement, relations with various stakeholders, and CSR strategies have evolved along similar paths to those seen in more developed markets, or differ significantly due to the unique institutional setting.

Scholars are seeking to deepen their understanding of institutional influences like government regulation and certification – a key CSR predictor (Aguinis & Glavas, 2012), – and their effects on the extent and type of CSR options available to firms operating in China. This is particularly relevant in a Chinese setting because the institutional setting is in flux, market-oriented reforms notwithstanding; because economic activity is still under state control; and because firms’ strategic options are preconditioned by their own capabilities, their industry sector, and the changing institutional setting in which they must operate (Peng, 2002; Warner, 2014). Domestic institutions both formal and informal, including the legal and regulatory context, ownership patterns, the influence of leaders, insider networks (*guanxi*), and government entanglement in firms, all have an important effect on the firms’ decision-making processes (Buckley, Clegg, Cross, Liu, Voss, & Zheng, 2007; Cardoza, Fornes, Li, Xu, & Xu, 2015), and thus affect CSR predictors and outcomes (Carroll, 1991), an effect that may be positive or negative (Child & Rodrigues, 2005).

However, little attention has been given to extending our knowledge in this area of CSR despite a growth in the scholarly literature on the management of Chinese firms. For example, Deng’s review showed that most studies on Chinese business concentrate on internal factors of the firm like management, finance, technology, etc., and also on market determinants, but few address S&E or CSR engagement, strategies, and/or stakeholder relations in Chinese firms (2011). Similarly, Wang et al. found that studies of CSR in the Chinese setting only began to appear in the *Academy of Management Journal* in 2011 (2016). The result is a body of literature on CSR in China still in its infancy; consequently, it is not clearly joined-up, covering dispersed topics.¹

1. Like for example the definition of CSR in the context of Chinese culture (Wang & Juslin, 2009; Xu & Yang, 2010), the managers’ values, interpretation, and attitudes towards CSR (Zu & Song, 2009), the development of research in the field of CSR (Moon & Shen, 2010), the institutional dynamics of CSR (Yin & Zhang, 2012), the relation between CSR and firm performance (Bai & Chang, 2015), the relation between CSR performance and the degree of internationalisation (Cheung, Kong, Tan, & Wang, 2014), the dynamics of corporate social responsibility in Asia (Kim & Moon, 2015), or the corporate communication on CSR including corporate social performance (Gao, 2009; Li, Fetscherin, Alon, Lattemann, & Yeh, 2010). No academic work on CSR in China was included in comprehensive review by Aguinis and Glavas (2012).

This leaves an important gap in the literature: the need to understand S&E engagement, stakeholder relations, and CSR strategies and options along with the underlying mechanisms of firms operating in China, namely predictors, mediators, moderators and outcomes (Aguinis & Glavas, 2012). This study aims to reduce this gap and gain a better understanding of the CSR-relevant performance and behaviour of firms, in particular sustainable and responsible investors (SRIs)² operating within China's evolving S&E regulation and government policies. The methodology to this end is a qualitative case study design; it adopts a stakeholder theory analytic framework (Freeman, 1984)³, identifying factors that impact Chinese firms' CSR options and stakeholder engagement at three levels: institutional, organisational and individual. The research addresses the following questions:

1. What underpins individual motives behind CSR activities in China? Are they profit-driven, a reflection of benevolent managerial and firm values, or a commitment to tackle broader social challenges? (Koh, Qian, & Wang, 2014)
2. What acts as moderators and mediators for the engagement of various stakeholders in China? What are the effects on individual employees and work teams? (Wang et al., 2016)
3. What may act as predictors of CSR strategies for companies operating in China's changing institutional environment? What is the role of the government and other institutions? (Kim & Moon, 2015)

Based on previous studies, and influenced by a Chinese institutional and business setting the regulations and certifications of which are young but rapidly evolving (Nee & Opper, 2012; Wang & Juslin, 2009), the general premise is that relations with stakeholders and stakeholder salience on average are low but growing, at the institutional level (Moon & Shen, 2010); that firms instrumentalise CSR activities mainly looking for financial returns, at the organisational level (Bai & Chang, 2015); and that the vision, organisational identity and pride, and the equity sensitivity of leaders are also low, at the individual level (Zu & Song, 2009). Given such a background, this paper contributes to the literature on CSR in China in the following ways: (i) by analysing a specific type

2. SRI are defined as professionals, firms, institutions, and organisations that combine their financial objectives with their concerns about social, environmental, ethical, and corporate governance issues (EUROSIF, 2014; USSIF, 2014). SRI are venture capital organisations (VCs) that invest in the early stages of companies, obtain a significant ownership position, and through this position influence firms to engage in CSR behaviour. These SRI/VCs often have significant power in their investee companies that allow them to align their interests with those of the investee companies and be involved in their decision-making process (Zhang, Zheng, Mako, & Seward, 2009). SRI represent around "one in every nine dollars under professional management in the United States" and with around US\$3.7 trillion in total assets under management it is moving from niche to mainstream investing (Sullivan, 2013). Their performance is tracked mainly by the Dow Jones Sustainability Global Index, and the FTSE4Good Global Index. In China it is difficult to measure the amount of SRI; however some estimates set the figure at around US\$15 billion (BSR, 2009b; IFC, 2009).

3. In which stakeholders represent a broader constituency for corporate responsibility than stockholders; this has been widely adopted in company and academic approaches to CSR (in particular in Western contexts). It combines ethical and strategic considerations and also integrates both a resource-based view with a market-based view, and adds a socio-political level.

of investor, the SRI, who has been neglected in the CSR literature to date; (ii) by investigating S&E engagement, stakeholder relations, and CSR strategies and options at multiple levels of governance, individual, organisational and institutional, in an evolving institutional setting; and (iii) by providing a unique frame of reference for analysing existing theories in various contexts.

The paper is structured along qualitative, inductive lines. The following sections describe the theoretical framework, the research setting, and the scope of the methodology. After that is a section presenting the observations and the patterns identified which prompted this paper's theoretical insights. Next is a discussion section that features contributions, limitations and issues for future research. The paper ends up with a summary and conclusions.

ANALYTIC FRAMEWORK AND RESEARCH METHODS.

Mainstream CSR theories developed in the Western world concentrate on four main aspects of social reality: economics, politics, social integration, and ethics; hence, the theories may be classified into four main groups (Garriga & Melé, 2004):

1. Instrumental Theories: CSR is seen mainly as a strategic tool to achieve economic objectives and wealth creation.
2. Political Theories: CSR is seen as rooted in an implicit social contract between business and society, entailing certain indirect but general obligations of business toward any society (which is later extended to “corporate citizenship”, describing a new general role of business in society).
3. Integrative Theories: CSR is seen as holding that business ought to integrate particular social demands; consequently, businessmen's responsibilities depend on the values of the society in which they operate.
4. Ethical Theories: CSR is assumed to base the relationship between business and society on ethical values (Lopez & Fornes, 2015).

Scholarly research in these topics of emerging economies is scarce indeed (Aguinis & Glavas, 2012). Filling this gap is needful, as “firms competing within emerging economies face a ‘high velocity’ environment of rapid political, economic, and institutional changes that are accompanied by relatively underdeveloped factor and product markets” (Wright, Filatotchev, Hoskisson, & Peng, 2005, p. 7). This mutating environment presents variegated challenges for firms operating in these economies, as widely documented in the literature (Filatotchev, Wright, Hoskisson, Uhlenbruck, & Tihanyi, 2003; Guillen, 2000; Hoskisson, Eden, Lau, & Wright, 2000; Peng, 2003; Williamson, Ramamurti, Fleury, & Leme Fleury, 2013). To this Wright et al. have added that emerging markets are “a new context in which to understand the relative strengths and weaknesses of the different [conceptual] perspectives” used in conventional theory (2005:2). In fact, most of the works

presented above suggest that MNCs operating in these countries develop sets of specific processes to cope with their changeable situation and the relatively low development of local markets. Thus, firms in a given market face institutional constraints exerting various pressures, which evoking various practices that subsequently are adopted to earn legitimacy from the industry and society (Scott, 2002; Tsui, Schoonhoven, Meyer, Lau, & Milkovich, 2004).

The scholarly literature on S&E issues in emerging economies shows a distinctive orientation of CSR along “a salient set of cultural and religious values at play” (Jamali & Neville, 2011, p. 601). In fact, “community is regarded as a key stakeholder in the Asian context” (Kim & Moon, 2015, p. 366), rather than just another stakeholder lumped in with customers, employees, suppliers and financiers, in contrast to what Freeman, Harrison, and Wicks (2007) suggest. The assumption is that cooperation and respect are key to relationships amongst community stakeholders in Asia (Tokoro, 2007). Hence, Asian firms see their communities as “centre-stage for their reputation and legitimacy”, and their S&E engagement and CSR strategies and options reflect this “dependence on and responsibility to the community” (Kim & Moon, 2015, p. 366). This differs markedly from the way CSR and stakeholder management have developed in Western markets.

Previous work suggest that government has a limited role in S&E issues, such that most CSR initiatives, whether by individuals or firms, are intended to fill this vacuum (Frynas, 2005). This leads to the need to analyse and understand CSR phenomena in the context of their own institutional setting (Matten & Moon, 2008). In China this is relevant to understanding S&E engagement, as that country’s setting is unique, featuring on the one hand the residue of the socialist ideology (Zu & Song, 2009), and on the other, the drive to become competitive in the newly open market. Within the latter, foreign firms’ CSR initiatives contrast with the early stages of home firms’ development of the same (Cheung et al., 2014).

The Chinese government, the main source of action and policy, seems to play a different role as a CSR predictor than those in Western economies (Wong, 2008). The Central Committee of the Communist Party sets economic policy (Bai & Chang, 2015), and one of its vehicles for implementing that is the state-owned enterprise sector, a major player in China’s economy, accounting for between 40% and 60% of it according to various estimates (Deutsche Bank, 2014). This exceptional circumstance joins up the institutional and organisational levels in such a way as may be extended to the individual level as well (Zhu, Liu, & Lai, 2016), because most of the managers of state-owned enterprises are appointed by the Party and their decisions can be affected by Party members also assigned to the firm. The managers are generally Party members, too, and share the government’s ideology (Zu & Song, 2009). An example, then, of a predictor is the White Paper published in 2007, and the consequent development of a Green Credit Policy which, among other repercussions, led the China Securities and Regulatory Commission (CSRC) to issue a Code of Corporate Governance for listed companies, most of which are state-owned enterprises.

But for private (i.e. non-state-owned) firms the situation is somewhat different, as “there are not intensive regulative pressures for CSR in China”, whence there is only “normative pressure to engage

in CSR activities” (Bai & Chang, 2015:506). In this context, Zu and Song found that managers’ interest in CSR seems more driven by a confusion in interpreting its precepts, so that their CSR activities are “more business-oriented than morally led” (2009:115). There is growing evidence, too, that firms are engaging in CSR initiatives more from fear of sanction than from any belief that sustainable and responsible practices increase shareholder value (Birgden, Guyatt, & Jia, 2009). The shortage of analysts and researchers trained to perform both CSR and financial evaluation also impacts the scene negatively (BSR, 2009a), along with the high turnover especially in investment management firms, which retards the long-term integration of CSR principles into investment strategies (Birgden et al., 2009). Even in this context a join-up of the organisational and individual levels has been developing as a result of the collapse of the *danwei* system⁴ – since the commencement of economic reforms in the 1980s, an increasing number of Chinese managers has been acting as agents of change, promoting sustainable and responsible investment in China.

The level of engagement by the gamut of stakeholders in China – government, firms and individuals – in S&E issues (as classically defined) is still below the levels observed in other major economies, especially in the West. This highlights inter alia differences between Chinese and Western firms in the understanding of CSR, especially the poor definition in Western conceptualisations of motives for CSR, and the weak inclusion of Chinese cultural reality and the Chinese ethical approach to CSR; therefore, a more inclusive definition of CSR is called for, to better align predictors with outcomes in a Chinese setting, in which “the primary reason to conduct CSR was to cultivate the virtues and become a superior enterprise which will contribute to the construction of a harmonious society” (Wang & Juslin, 2009:446).

This analysis raises the question of the potential role of the firm in a context in which the motives behind CSR initiatives are mainly instrumental; where government regulations and their underlying CSR principles are still not deeply rooted in society; and where the resources are scarce for promoting the long-term embeddedness of CSR engagement within firms. At the individual level the role of the firm is affected by the values, beliefs and vision of the managers and employees, and their underlying motives for pursuing CSR. At the organisational level, that role is influenced by the variable understanding of CSR in firms and the strategies resulting from it. At the institutional level, its role may be affected by the institutional setting and the influence of that on firms’ decision-making processes.

RESEARCH SETTING AND QUALITATIVE DATA.

The research herein reported is based on a qualitatively methodical analysis of one case study (Yin, 1994). This method is considered appropriate for achieving a thorough understanding of such a thing as the characteristics of SRIs in China and their S&E engagement, stakeholder relations, and CSR strategies and options together with their underlying mechanisms, viz. predictors, mediators,

4. Danwei is the first level of a multi-tiered hierarchy joining up each individual with the government infrastructure. Workers were once bound to their danwei or work unit for life. Each danwei used to arrange their own housing, child care, schools, clinics, shops, services, post offices, etc.

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moderators and outcomes, which are the main objectives of this study. Such a methodology is also better suited to examining the subjective features of this study, namely, stakeholder salience, intention to engage in CSR, leadership vision, organisational identity and pride, equity sensitivity, etc. (Creswell, 2003; Eisenhardt & Graebner, 2007).

The SRI on which the case study is based was selected following the principles of theoretical sampling (Eisenhardt, 1989; Eisenhardt & Graebner, 2007). The investor in question is one of the major players in the industry, yet has certain characteristics that make it suitable for this investigation. An investor of this type was also chosen because of their neglect in the CSR literature, with the intention of providing an alternative perspective on CSR from a firm operating in a mutable setting. The firm, which was promised anonymity, is a very large SRI in China with investments in around 30 companies and a value of over US\$350 million in 2015. Since its founding in 2002 with capitalisation of US\$13 million, the company has won many accolades and awards, e.g. “Responsible Investor of the Year” (PE Asia); “Top 50: ‘China’s Best Venture Capitalist’” (Forbes China); “China’s Most Powerful People” (Business Week); and “Stars of China” (Business Week China); as well as the “Outstanding Corporate Citizen” citation of the Chinese Ministry of Civil Affairs.

Data were collected through twenty-three interviews – six of them by telephone, six in-depth, and fourteen semi-structured averaging one hour in length – similar to several previous studies on Chinese MNCs (Ge & Ding, 2008; Rui & Yip, 2008; Yin & Zhang, 2012). Seventeen interviews were conducted within the company and the remaining six, in order to provide an outside viewpoint and avoid insider bias, were conducted with external players having direct dealings with the company (including the parent SRI based in Holland) and/or with the industry. The four in-depth interviews were carried out, first to construct an initial diagnosis of individual motives, moderators and mediators, stakeholder engagement, predictors, institutions formal and informal, and the role of government. This diagnosis revealed how the various stakeholders perceived the several topics affecting CSR, and generated a broad framework within which to continue with the other nineteen interviews. This field work proved useful for understanding the multi-dimensionality of the firm’s CSR approach; relations between the firm, its managers and its employees; as well as the predictors and outcomes.

Interviews were conducted with the Founder and Managing Partner, a Principal, the Director of Portfolio Management, three Associates, the Financial Controller, a legal Counsellor, the HRM Manager, the Fund Account Manager, an Accountant, the Secretary of the firm’s “Green Team”, three Analysts, and two Partners. The interviews with the outsiders were conducted with Researchers, the China Head of a major think tank, the Head of a major NGO based in China, the Holland-based Asset Manager of the parent SRI, and the Manager of Private Equity in sustainable investments, also of the parent SRI. The interviews were transcribed verbatim from tape recordings, yielding 208 pages of text.

Like previous studies using similar methods – e.g. Kotabe, Parente, and Murray (2007), Valax

(2012) – the analysis was unguided by any prior hypothesis, only by a few preliminary assumptions, and continued with comparing responses and coding data, which resulted in the identification of patterns, and similarities and differences. Finally, the findings were reliability-checked by triangulation within the case study (internal and external), with previous works, and with secondary data. These processes aimed at attaining internal validity. Their iteration, similar to that of Brown and Eisenhardt (1997), helped to develop the constructs and theoretical insights. A summary of the analysis is presented in Table 1 (see page 17).

This combination of methodological elements – the selection of the case, in-depth and semi-structured interviews with internal and external players, the coding of data, triangulation and pattern matching – was designed to lend the findings reliability, internal constructedness, and external validity (Gibbert, Ruigrok & Wick, 2008).

ANALYSIS OF A SUSTAINABLE AND RESPONSIBLE INVESTOR'S S&E ENGAGEMENT, STAKEHOLDER RELATIONS, AND CSR STRATEGIES AND OPTIONS.

Analysis began with certain assumptions, following Eisenhardt (1989) and Yin (1994). At the organisational level, the assumption was that Chinese firms engage in CSR mainly for profit, an instrumental motive; an assumption based on previous studies (Bai & Chang, 2015; Gao, 2009; Zu & Song, 2009). At the institutional level, the assumption was that the Chinese governmental and business settings strongly influence the firms' strategic options, including CSR activities, which has resulted in low but growing stakeholder salience and thin relations with them; an assumption based on the findings of previous studies (Moon & Shen, 2010; Nee & Opper, 2012; Wang & Juslin, 2009). At the individual level, the assumption was that leadership vision, organisational identity and pride, and equity sensitivity were weak; an assumption based on the combination of the two foregoing assumptions, plus the findings in Zu and Song (2009). For purposes of this paper, the firm under study will be referred to as Co (short for Company) in all that follows.

Individual level

The first interview to explore the individual level was carried out with Co's Founder and Managing Partner (FP). When asked what was his motive for founding Co in 2002, the answer was, "What can I do to help China to grow and also how can a fund manager benefit from the emerging Chinese economy?" One consideration in particular that spurred FP at that time was the pollution caused by Chinese factories: "this made me think we can do something in that part, but from the other side of the same token: world manufacturing vs. world polluting". Then FP posed a question that set him apart from other fund managers: "What are the fundamentals for future growth?" These responses suggested that Co was founded out of two main motives, instrumental and ethical: instrumental through the possibility of benefiting from the growth of China; ethical through the idea of helping the whole country's development, along with going back to basics and assessing the fundamentals for future growth.

These two motives are reflected in the original fund in 2002: the China Environment Fund focussed on clean technology, a concept was underdeveloped at the beginning of the twenty-first century,

especially in China. FP vested the original fund with a set of personal values and beliefs, which was subsequently carried over to each new fund. In the beginning, “there was too much focus on the doing good part, we have to face the real business world”; however, Co then evolved to “doing well by doing good” (利成于益) which is better aligned to Co’s values. The CSR values are part of the investment philosophy, being profitable and being responsible, which significantly differentiates Co from other firms in China. FP aims to balance profit expectations with social and environmental responsibilities, while at the same time “infecting” employees with the same spirit. Within the firm he promotes the core values even with small gestures like using recycled printing paper or turning off the air conditioning whenever possible, so that these responsible acts “become part of [their] daily life”. FP’s ultimate intention is that working in Co should make people self-conscious.

In the same vein, FP commented, “We have to attract people and make them interested in coming to this area; therefore, we adopted and upgraded to the next level the CSR concept.” Thus, in the human resources context the company implemented a set of S&E criteria for recruitment and management. In contrast to other firms, they have added an extra requisite to the selection process: a personal value system. About this FP asserted, “We ask people, ‘What is important in life? Is making money more important than doing good?’ They have to figure it out. Also, besides their value system, what is more important? Ethics, integrity, honesty, sense of belonging? Is your lifestyle coherent with your professional style?”

As mentioned above, these values are tangible in small acts of daily corporate behaviour like printing on both sides of the sheet and forgoing disposable chopsticks. But have these values permeated the organisation at all levels? The behaviour reported by the Financial Controller sheds light on this question. “I like to find what can stretch my spirit, not just gain experience and knowledge. We should work for others. That is why [Co] employed me.” To this she added that in her daily life she grows plants and keeps a little farm in her backyard, reusing the water she washes her vegetables with. To this the Legal Counsellor added, “[The FP] persuaded me to buy a hybrid car.” Further comments from the HRM Manager and from Associate 1 supported this: the former said, “[The FP] taught us how to love our environment”; and the latter stated, “We all have the same goal, not only to earn money but also to do something to change the polluted world, especially China.” The Fund Account Manager said she was not abreast of environmental concerns before working for Co. She added that before, she focussed mainly on how much money she could earn for the firm. Now she says, “I use double-sided printing and I shut off the lights. You become aware here. The environment is a cool thing.”

The external interviewees were consulted on the same topics to avoid possible insider bias from the staff of the organisation and also to avoid any tendency of the Chinese to “save face” by replying with positive answers. The Holland-based Manager of Private Equity in sustainable investments agreed, “They are a unique group of people, very honest and reliable ... they even had turtles walking around in the office a few years ago and allowed pets to come to their office.” He added, “Co is our lead example [in terms of S&E] compared to other funds in Asia”. Highlighting Co’s internal drive

to continue improving the S&E aspects of its business, he concluded, “We are very, very proud to have a group of enthusiastic, passionate professionals in green tech investment areas.”

Analysis of interviews showed the vision and values of Co’s Founder have guided development of the firm from its inception; they seem to have effected a change in the behaviour of both the individuals and the firm. This was unexpected and contradicted the study’s initial assumptions (heavy government influence and instrumental self-interest in CSR); although it may be partly explained by the international background of the Founder and most of the employees, which exposed them to social environments where S&E issues matter; and also because the influence of the Party and/or government does not drive Co as a private organisation. Also potentially explanatory is the relatively hierarchical structure of Chinese culture⁵. In summary, employees’ perceptions of visionary leadership can act as a CSR mediator in China, and strengthen the engagement of a group of stakeholders.

Organisational level

The starting point in analysing whether and how Co’s values are transmitted to the investee firms is to understand the process that leads to investment and then activism as a major shareholder. The process starts with vetting the potential firm. “The Co follows a negative strategy. We screen out the negative ones, like a filter”, explained the Principal. The vetting process looks at S&E issues and excludes certain types of industries and products, such as coal mines or weapons manufacture, that their funders do not accept. In terms of S&E standards and industrial preferences, the prospective company must achieve a minimum level to pass vetting. This benchmark is in line with (home and host) government standards and regulations, which is also a minimum requirement, as “our funders do not let us invest in companies that do not at least meet the local standards and requirements”, explained Associate 2. To this the Principal added that there are no offsets between indicators (e.g. scoring well on water treatment is not allowed to offset scoring badly on air pollution); “there is a minimum bar”. The Principal offered wastewater as an example: “If they do not treat it properly ... we cannot invest.” After passing the vetting stage and fulfilling the minimum requirements, Co assigns an S&E risk category to each company; for instance, Category A is defined as high impact which means the company needs a further S&E assessment.

The second stage is S&E due diligence. After vetting, Co outsources the due diligence process to reputable auditors in the CSR field, like ERM or BSR. “They conduct a full environmental impact assessment of the potential investee companies”, asserted the Principal. If the company passes S&E due diligence, an auditors’ report is sent to the investment committee for approval. “Sometimes there are outstanding problems, so a plan of corrective actions is made. These plans are included in the investment agreement”, adds Associate 1. The SRI will then provide support for the company in the implementation of this plan: “We will help them do it with our internal professionals; our job is to provide some help”, continues Associate 1, anticipating how Co will be engaged in shareholder activism. An important factor at this stage is dialogue between the SRI and the management team of the investee company, explained the Principal: “from a mentality point of view, are they interested

5. There is a pertinent Chinese proverb: “Not the cry but the flight of the wild duck leads the flock to take wing and follow”.

in corporate governance building or safety systems for their workers? We are trying to understand their mentality in the due diligence part of the process.”

Post-investment is the third stage, implemented by two main actions: shareholder activism and annual S&E audits. The data suggest that Co’s main interest in using shareholder activism is to guide and mentor investee companies toward achieving better corporate social performance after the investment is made. “When we make an investment, it is just the beginning. We will advise the company to improve their operations or S&E responsibility, and we can help them a lot. Typically, the company will easily accept our ideas and our slogans. This differentiates us from other firms significantly”, explains Associate 3. However, Co is aware that they need to strike a balance and avoid having too much influence, as the incentives and rewards should stay in the companies. “You are not running the company, just advising”, explained Analyst 2.

Co’s prime value (doing well by doing good) influences internal behaviour in both the fund and the investees companies. Several interviewees highlighted the impact of Co’s strong beliefs on their personal decisions; for example, a member of the Green Team acknowledged that “the environmental awareness attracted me to work here”, and one Analyst said, “Co is attractive because I feel I can do a positive work for the environment.” The Accountant concurred: “It’s a good combination, good people along with the doing well by doing good mandate.” Several employees also mentioned the influence of Co’s values on their daily lives; for example, one said, “Even at home, I switch off the lights. I would also like to reuse the water.” The FP added, “We are required by our international investors and customers to show that our CSR approach can help ... [in particular] how we treat our employees, how we promote the values internally. We try to influence employees’ behaviour to use resources in a responsible way.”

The external interviewees were consulted to offset insider bias, cultural differences, etc. The Manager of Private Equity in sustainable investments remarked, “We are very happy with Co. We have other funds in Asia but they are far behind them;” to which the Asset Manager of the parent SRI added, “Companies ask Co whether they want to invest in them. They are well known there.”

Analysis of the interviews finds that the several stages of the process are ethically guided, and that Co’s values permeate the fund and investee structures. The former was unexpected. Other companies, experience shows, focus mainly on economic benefits (instrumental reason). It is interesting to watch Co offering resources (knowledge, access to technology, trained professionals, etc.) as well as values to assist investee firms in their development and to effect changes in their strategic vision. In summary, in China, SRIs’ resources and values can act as CSR mediators which explain the underlying process and mechanism by which CSR initiatives relate to an outcome.

A second look at this insight suggests that this is the ethos of SRIs: due to their principles they are meant to become mediators in CSR. However, it is important to note that Co does so in an environment not altogether conducive to CSR initiatives, where important S&E issues must be dealt with, and where “the external fashion defined as CSR might just match the remnants of the socialistic beliefs” (Zu & Song, 2009:106). In this environment Co may look like an outlier,

although one that is pursuing its own strategy regardless of that setting. This strength can be explained by the combination of the founder's vision along with the funders' – both are aligned to a strong belief that they are doing the right thing. This integration of factors from two distinct levels (individual and organisational) suggests that, even in China, the alignment of the vision, values and beliefs of the CEO with those of the shareholders can act as a CSR moderator; i.e. determine the conditions under which CSR initiatives influence outcomes.

Institutional level

The Founder introduced the institutional level by saying that “the government has an extremely important role; a more important role in clean technology areas than in other sectors, because the environment needs standards”; however, “these [regulations and standards] are not 100% mandatory, we just push, help them to adopt this, but we are making the rules ... They are not mandatory yet. But we do as much as possible to do more.” This led the author to question the significance of the institutional environment as a predictor in two main areas: enforcement and regulations.

The enforcement of environmental regulations by government authorities is a major challenge in China. This can be seen in the fact that, generally, the cost of treatment plants is higher than the relatively low penalty for polluting. One of the partners described the following situation: “A Chinese oil company [does not care about] causing oil pollution because the penalty is only 20,000 RMB.” The China Head of a major think tank concurred: “Here in China you can pollute ... the penalty is very low.” One of the Researchers added that even the CSR guidelines in the stock exchange were not enforced: “These are guidelines; they are not mandatory.” This means that from an institutional perspective almost no incentive exists for companies to pursue CSR.

By contrast, the challenges for regulation seem to be poor measurement and poor availability of data. A good example is the indicators for wastewater discharge. “What standards, such as chemical content, are there for measuring?” asked the Head of the NGO. He noted that in the 11th five-year plan (2006-2010) the government set a COD⁶-reduction target which “was the measurement used in the EU in the 1960s”. On top of this, there is too little access to and availability of data. “They are not measuring, there is no data ... There is limited data and they are not releasing it ... this is China's major problem”, stated the Head of the NGO; to which the China Head of the think tank added that it is “really hard to get the data”. Analyst 2 summed it up with a question: “Where do you find the data?”

Poor regulation and enforcement have led to a demand for other institutional forces – the market and/or civil society – to play the predictor role. The FP said that the Chinese market is now beginning to get environment awareness from the USA, “but Chinese people do not care about the environment yet. They feel it is far away.” The Head of the think tank added that as China becomes one of the largest consumer markets, “everyone is trying to get their own brand, so lots of Chinese companies are doing CSR; but they are not employing experts, they are using their public relations

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department. They view CSR as pure branding strategy.” Moreover, “there is a lot of greenwashing going on”, said the Head of the NGO. If “there is a big scandal [followed] by a big public outcry, there is pressure, and then the government wants to change some policies. This gives us the power to say you are violating the Chinese regulations, [but] if there is no regulation, we cannot even do that.” One of the Researchers added that some “international companies have double standards in CSR between what they do” in their home countries and in China.

Most of the interviewees agreed that the government’s role in China differs from that of the EU, for example. “The main difference is that here it is much more government driven; in the West it is more caused by social movements”, asserted the Researcher. The China Head of the think tank added, “In Europe it is bigger society, smaller government. Here in China it’s bigger government and smaller society.” Having said this, all acknowledged that the government is an essential driver of CSR in China. “I think that what you see here is similar to what happened in the West in the past”, said the Researcher. “Back then, companies also started to be more aware of the issues because of public pressure. The difference is that here it is much more government-driven ... because they know there is a need for change.”

The relatively low influence or encouragement of the government on CSR initiatives was not expected. This is even more striking in China, where the influence of the government is tangible in almost every aspect of the economy (Boisot & Meyer, 2008; Cardoza et al., 2015). This low influence has a negative effect on CSR outcomes as the regulations, standards and certifications do not act as predictors (Fineman & Clarke, 1996); industry regulations do not act as moderators (Campbell, 2007); and therefore outputs are affected. This may be the consequence of inchoate S&E regulation and enforcement (Nee & Opper, 2012). In the near future they may become predictors and moderators. In the meantime, this strengthens the idea that the alignment of the vision, values and beliefs of the CEO with those of the shareholders can act as CSR moderators, as Co is pursuing its CSR strategy regardless of the lack of incentives provided by the institutional setting.

The vacuum in predictors left by weak institutions (poor regulations and enforcement, and low social engagement) may be filled by self-regulation. In the case of Co, its values become a predictor for the portfolio of companies (at organisational level) as the investments are decided on in the early stages, which allows the investees to align their strategies with S&E goals. On the other hand, the ownership stakes in the investees along with the support Co gives after the screening stage gives the whole portfolio a scale and visibility in CSR that smaller, individual firms could never attain on their own. This was tangible in a comment from the Principal: “We have a system in place that improves the performance of the companies in our corporate portfolio that has given us global recognition.” In this context, the size of Co acts as a moderator beyond the strategies pursued through its portfolio as it influences CSR outcomes in suppliers, employees, investors, etc. The same can be said about Co’s visibility and contact with the public (which is the organisational level); its reach influences the marketplace of consumers and competitors, social movements, and eventually regulations (including self-regulations) while the institutional environment develops. This is similar to what was found in previous studies like Sharma (2000) and Waddock and Graves (1997). This integration of elements from two different levels, the institutional and the organisational, leads to the following ideas: (1) in

China, self-regulation (at the organisational level) can act as a CSR predictor; and (2) in China, visibility and contact with the public (again, at organisational level) can act as a CSR moderator while the institutional environment is developing.

DISCUSSION.

Contributions

One of the main challenges has been to draw defensible theoretical conclusions from the empirical data. To do this the author has endeavoured to infer to the ‘best explanation’ from the gamut of plausible explanations of CSR options/strategies, on grounds of epistemic virtues like interestingness, originality, comprehensiveness and realism in a Chinese context (Ketokivi & Mantere, 2010).

Theoretically, the most relevant findings are those involving multilevel integration: alignment of the vision, values and beliefs of the CEO with those of the shareholders acting as a CSR moderator; self-regulation acting as CSR predictor; and visibility and contact with the public acting as a CSR moderator while the institutional setting develops. They show that combining the strengths of several levels – individual and organisational, organisational and institutional – can produce outcomes beneficial to external and internal stakeholders. In institutional settings with poor regulation and enforcement, and low social engagement with S&E issues and CSR initiatives, firms may act as the fulcrum of a two-way hinge with the individual level at one terminus and the institutional level at the other. This means that the interrelation may be linear (see Figure 1) rather than triangular as described by van Tulder and van der Zwart (2006). This makes sense in China, given its peculiar political system where the government-civil society link (i.e., the link that completes the triangle) is to some extent circumscribed. The same may be true of other emerging markets with weak institutional settings.

Figure 1: Two-way hinge vs. triangular societal relations.



This conclusion casts into doubt, in social settings with poor regulation, enforcement, and low social engagement, the role of institutions as a motivator (predictor) that encourages and offers opportunities for CSR initiatives at the organisational and individual levels. This consideration is more relevant in a market where most companies are linked to the government and their managers and employees work within hierarchical structures aligned to its principles. The case of the SRI

under study (Co) is an extreme one in this setting, both because it has obliged itself to invest only in S&E-responsible firms to fulfil its ethos, and because both the founders and the employees (including the FP) have been exposed to international settings where S&E issues top the agenda (i.e. their motivations may come from abroad). Further analysis of this aspect is beyond the scope of this study. These findings join up the conclusions of previous studies (see, for example, Cardoza & Fornes, 2011; Ge & Ding, 2008; Williamson et al., 2013), which have shown the importance of having international exposure and/or international partnerships for Chinese companies' development and growth.

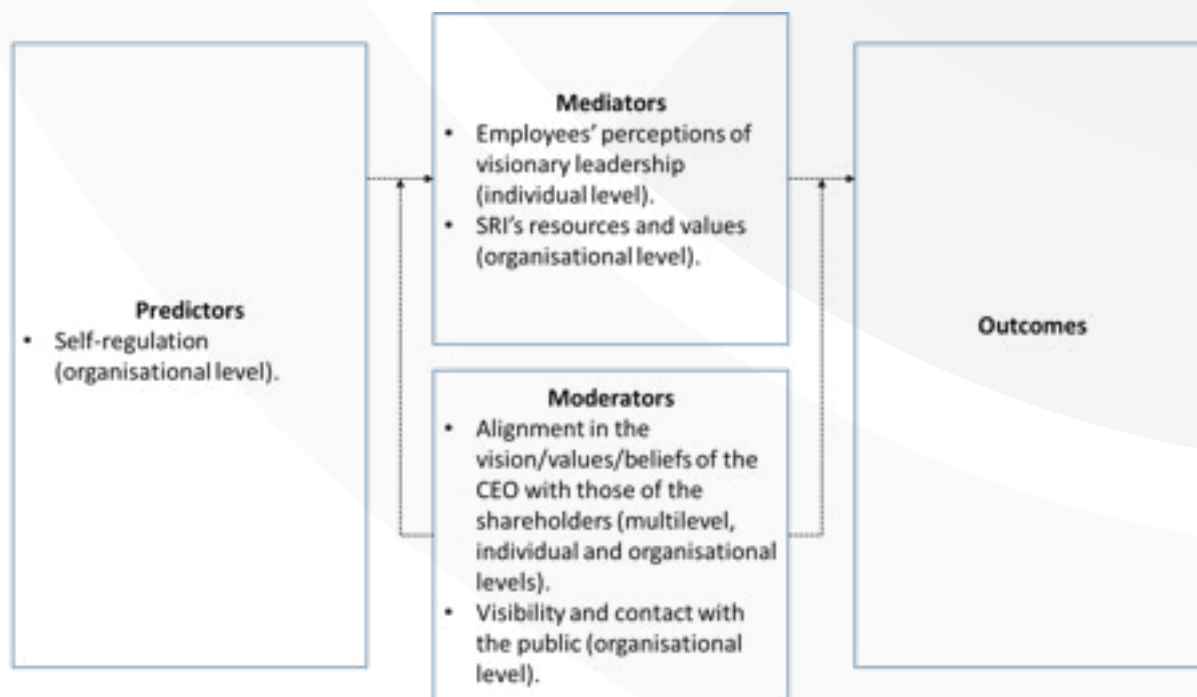
These findings also contribute to the practice of CSR. Companies can align their interests with those of shareholders and governments to define and implement more robust strategies to get better results, thus moderating the relationship between CSR predictors and outcomes. As most companies in China are engaged in CSR for instrumental reasons, according to most previous studies (Du, Chang, Zeng, Du, & Pei, 2016; Wong, 2008), the fulcrum of the two-way hinge is a strong position to set CSR agendas and, as a consequence, to reap economic benefits. If in addition, in the absence of regulation and enforcement, their CSR engagement is led by ethical and normative motives, they will possess a kernel of differentiation in an ever more competitive market.

Visionary leadership, acting as a CSR mediator and therefore strengthening the engagement of groups of stakeholders, has also contributed to both theory and practice. Although unexpected, given governmental influence on companies along with the stress on economic returns from CSR, this finding exhibits the end-product of a process that started with the open-door policy and deepened with WTO accession. Parts of Chinese society (including companies) seem to be undergoing a transformation toward more S&E consciousness. In this study it is interesting to note that the process appears to arise on the individual level and then percolate up to the organisational level. The question is when (or maybe if) and how it will reach the institutional level, and then if it would be a direct relationship between civil society and government, or if companies would continue being the moderators? As a benchmark, industry regulations pushed by the civil society (individual level) were the main moderators of companies' CSR outcomes in the EU; however, the high institutional distance with China makes it difficult to predict how this might develop.

SRI's resources and values acting as CSR mediators bear implications for practice. As the case of Co shows, it is possible in China to earn healthy returns and achieve wide visibility and a strong position in the market, while pursuing CSR objectives out of ethical/normative motives. This finding differs from several previous studies of CSR in China, and seems to have resulted from the alignment of the vision, values and beliefs of the CEO with the shareholders, combined with the weak influence of the government. The finding also has implications for practitioners and policy makers, especially in emerging markets, as governments can incentivise companies (encouraging self-regulation, associations, etc.) to become moderators of CSR initiatives and overcome a weak government-civil society (i.e. institutional-individual) link.

All in all, analysis of the data presented in this paper has expanded our understanding of CSR in China; in particular, how a specific kind of firm can yield outcomes beneficial to external and internal stakeholders alike. In contrast to the original assumptions, some companies in China adhere to CSR for ethical reasons, based on the strong values of the shareholders and CEO. In such a setting, the government's influence is negative in not providing the necessary regulation, standards and certifications to encourage firms to pursue CSR initiatives, whilst firms can become predictors of CSR in the same institutionally weak settings. More importantly, a multilevel analysis shows that companies as moderators become the fulcrum of a two-way hinge that links the individual and institutional levels (Figure 1). This central role positions companies in a strong position to define their CSR plans and eventually profit from them. A representation of the findings of this study is provided in Figure 2.

Figure 2: Findings of this study.



Limitations of this study

A single case study means that results may not be easily generalisable. In particular, this case is a specific kind of firm, such was the intention of the study. Complicating matters even further is the deeply rooted Chinese culture of 'saving face', which protects self-respect and individual identity; hence interviewees may have had an extra impetus to give positive responses. Another limitation and barrier is language; although the interviews were conducted in English, the data could be interpreted differently.

Future research

This study of course leaves some issues about CSR in China awaiting further research; in particular: (i) the foundations on which CSR rests, to understand better the interactions between the three

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levels, especially when the government does not generate the necessary predictors; (ii) the influence (if any) of previous experience on the setting – (which could be overseas, but not a condition), – with higher S&E responsibility and consciousness on the values and vision to define CSR strategies and stakeholder engagement in places with weaker institutional frameworks; and (iii) the kind of incentives governments can utilise for companies to become moderators and as a result achieve stronger CSR outcomes.

SUMMARY AND CONCLUSIONS.

What underpins individual motives for CSR activities in China? Are they profit-driven, a reflection of the benevolent values of managers and firms, or a commitment to tackle broader social challenges? What acts as moderators and/or mediators for the engagement of different stakeholders in China? What are the effects on individual employees and work teams? What acts as predictors for CSR strategies for companies operating in China's changing institutional setting? What is the role of the government and other institutions? This study has given hints as to the answers to these questions by providing a deep analysis of a sustainable and responsible investor (SRI), a type of company neglected in the CSR literature. Analysis of the data shows that CSR activities in China can be motivated by benevolent managerial and firm values and/or by a commitment to tackle broader challenges. The data show as well that SRI's resources and values, and employees' perceptions of visionary leadership, can act as mediators. The data further show that high visibility and scale, and the alignment in the vision, values and beliefs of the CEO with those of the shareholders, can act as moderators. The findings are that self-regulation can act as a predictor in a weak institutional setting.

This study of the case of a specific kind of investor, sustainable and responsible, selected with the aim of glimpsing an alternate perspective on CSR initiatives in a setting known for the strong influence of the government, has provided possible new insights into the outcomes for internal and external stakeholders and how to improve them. Of particular interest is the self-regulation that can substitute for low social engagement, and poor standards, certifications and measurements from the government; the alignment of the vision, values and beliefs of the CEO and shareholders to pursue CSR initiatives in an uncondusive environment biased by the remnants of socialistic beliefs; and the relevant role played by companies as an organisation that can serve as a two-way hinge between the individual and institutional levels.

These findings highlight the need to continue the study of the development of CSR in emerging markets, to compensate for the fact that the vast majority of academic writings is about the characteristics of CSR in developed countries. As the case study of a firm in China shows, CSR initiatives are still in their early stages of development, and it is important to have a better understanding of what paths they are likely to take in their development.

Table 1: Summary analysis of the collected data.

Level	Question	Most relevant quotes
Individual	- Motivations	<p>“what can I do to help China to grow and also how can a fund manager benefit from the emerging Chinese economy?”</p> <p>“this made me think we can do something in that part but from the other side of the same token: world manufacturing vs world polluting</p> <p>“the environmental awareness attracted me to work here”</p> <p>“what can I do to help China to grow and also how can a fund manager benefit from the emerging Chinese economy?”</p> <p>“the environmental awareness attracted me to work here”</p>
	-Mediators - Moderators & engagement	<p>“we ask people, what is important in life? Is making money more important than doing good? They have to figure it out. Also, besides their value system, what is more important? Ethics, integrity, honesty, sense of belonging? Is your lifestyle coherent with your professional style?”</p> <p>“I like to find what can stretch my spirit, not just gain experience and knowledge. We should work for others. That is why [the Co] employed me”</p> <p>“the FP persuaded me to buy a hybrid car”</p> <p>“he [the FP] taught us how to love our environment”; “we all have the same goal, not only to earn money but also to do something to change the polluted world, especially China”</p> <p>“I use double-sided printing and I shut off the lights. You become aware here. The environment is a cool thing”</p> <p>“the company’s values become part of my daily life”</p>
	- Predictors - Institutions - Government	<p>“our funders do not let us invest in companies that at least do not meet the local standards and requirements”</p>
Organisational	- Motivations	<p>“what are the fundamentals for future growth?”</p> <p>“there was too much focus on the doing good part, we have to face the real business world”; but then we evolved to “doing well by doing good”</p> <p>“from a mentality point of view, are they interested in corporate governance building or safety systems for their workers? We are trying to understand their mentality in the due diligence part of the process”.</p> <p>“everyone is trying to get their own brand, so lots of Chinese companies are doing CSR; but they are not employing experts, they are using their public relations department, they view CSR as pure branding strategy”</p>
	-Mediators - Moderators & engagement	<p>“we have to attract people and make them interested in coming to this area. Therefore, we adopted and upgraded to the next level the CSR concept”.</p> <p>“they are a unique group of people, very honest and reliable...they even had turtles walking around in the office a few years ago and allowed pets to come to their office”</p>

Organisational	-Mediators - Moderators & engagement	<p>“Sometimes there are outstanding problems, so a plan of corrective actions is made. These plans are included in the investment agreement”</p> <p>“we will help them to do it with our internal professionals, our job is to provide some help”</p> <p>“When we make an investment it is just the beginning. We will advise the company to improve their operations or S&E responsibility and we can help them a lot. Typically, the company will easily accept our ideas and our slogans. This differentiates us from other firms significantly”</p> <p>“it's a good combination, good people along with the doing well by doing good mandate”</p>
	- Predictors - Institutions - Government	<p>“we have to attract people and make them interested in coming to this area. Therefore, we adopted and upgraded to the next level the CSR concept”.</p> <p>“The Co follows a negative strategy. We screen out the negative ones, like a filter”</p> <p>“there are no trade-offs between indicators”</p> <p>“They conduct a full environmental impact assessment of the potential investee companies”</p> <p>show that our CSR approach can help... [in particular] how we treat our employees, how we promote the values internally”</p> <p>“we have a system in place that improves the performance of our corporate portfolio companies that has given us global recognition”</p>
Institutional	- Motivations	<p>“these [regulations and standards] are not 100% mandatory, we just push, help them to adopt this, but we are making the rules ... They are not mandatory yet. But we do as much as possible to do more”</p> <p>“here in China you can pollute... the penalty is very low”</p> <p>“these are guidelines; they are not mandatory”</p>
	-Mediators - Moderators & engagement	<p>“a Chinese oil company [does not care about] causing oil pollution because the penalty is only 20,000 RMB”</p> <p>“but Chinese people do not care about the environment yet. They feel it is far away”</p> <p>“there is a lot of greenwashing going on”</p> <p>“the main difference is that here it is much more government driven, in the West it is more caused by social movement”</p> <p>“I think that what you see here is similar to what happened in the West in the past. Back then, companies also started to be more aware of the issues because of public pressure. The difference is that here is much more government driven...because they know there is a need for change”</p>

Institutional	<ul style="list-style-type: none"> - Predictors - Institutions - Government 	<p>“the government has an extremely important role; a more important role in clean technology areas than in other sectors, because the environment needs standards”</p> <p>“what standards, such as chemical content, are there for measuring?”</p> <p>“there is a big scandal [followed] by a big public outcry there is pressure, and then the government wants to change some policies. This gives us the power to say you are violating the Chinese regulation, [but] if there is no regulation, we cannot even do that”</p> <p>“They are not measuring, there is no data... There is limited data and they are not releasing it...this is China’s major problem”</p>
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