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CSR in China: Is there a legacy of the iron rice bowl?

Pre-1978 social responsibilities of state-owned enterprises and their legacies in Chinese business environment

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Today's China is an outcome of structural changes that have resulted to the rapid growth of the economy. The concept of CSR has also become an important aspect in the business and an increasing amount of companies are integrating CSR activities to their business operations around the world. Although CSR in China is considered as a new topic, the country has an economic history of firms generating the social welfare: in the centrally planned economy between 1949 and 1978, state-owned enterprises were responsible for providing life-long employment and social benefits for their employees and their families, the concept known as an iron rice bowl. The requirements of the iron rice bowl were cancelled in the reforms that started in 1978, and firms shifted their focus to the financial goals, making social responsibilities a voluntary and additional part of business. This thesis aims to find out whether there is a legacy of the pre-1978 social responsibilities in the CSR perceptions and performance in today’s China. Research and findings of the study are based on three CSR theories: institutional theory, agency theory and stakeholder theory.

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<th>Keywords</th>
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<td>Corporate social responsibility, China, Iron rice bowl, State-owned enterprises, Institutional theory, Agency theory, Stakeholder theory</td>
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1 Introduction

After the changes in the structure of Chinese economy in 1978, the emerging market of China has faced a rapid growth and become the second largest economy in the world, attracting multinational corporations and foreign investors. At the same time, the concept of corporate social responsibility (CSR) has increased its importance among businesses and nations around the world, making corporations aware of their social impacts and responsible for sustainable actions. Internationalization through multinational corporations (MNCs) has been held accountable for increasing the knowledge of modern CSR in China, although various scandals regarding human rights, labour and environment have been revealed among both international and local companies in China. China’s economic history offers an interesting view towards the evolution of CSR in the country, as the centrally planned economy model between 1949 and 1978 required state-owned enterprises (SOEs) being responsible for the social functions of the state such as education and health care of employees. The concept of “iron rice bowl” refers to the pre-reform Chinese SOEs’ obligations to provide life-long employment and social welfare in China. After the reform and adaptation of market-oriented norms in 1978, such social obligations were cancelled by the government, and companies turned to achieve financial rather than social goals in their actions, enabling China’s fast economic growth. CSR thus became an additional and voluntary part of the business in the country where companies used to serve as a provider of social welfare.

The aim of this research is to find out whether there is a legacy of these social obligations, iron rice bowl, and planned economy in the concept of modern CSR in the Chinese business environment. Thus, the research question of the study is: What is the legacy of the pre-1978 social responsibilities of SOEs in the Chinese business environment?

The research has been conducted by looking into existing literature, studies, and CSR reports of various Chinese companies. The three hypotheses of the research are based on the following three theories regarding CSR in China: institutional theory, agency theory and stakeholder theory. In the following chapter, the concept of CSR will be introduced, after which Chinese business environment and the concept of iron rice bowl will be further discussed. After the discussion of CSR and iron rice bowl, the pre-
vious literature regarding CSR in China will be reviewed, after which the theoretical background and the hypotheses of the study will be introduced.

1.1 Defining Corporate Social Responsibility

Corporate Social Responsibility (CSR) has become an important aspect in today’s global business, making all organizations accountable for their impacts on the society, environment, economy, and stakeholders. While companies keep their economic goals as a priority, “doing good while doing business” is becoming an essential mindset in today’s business environment around the world. In general, CSR is described as a concept that combines firm’s objectives to make business meanwhile assessing and taking responsibility of the company’s impacts on the environment, economy, as well as social wellbeing of employees, customers, and surrounding communities. CSR is thus referring to the corporation’s responsibilities for increasing its positive impacts on the society, environment and economy and decreasing the possible negative impacts of such meanwhile being profitable and making business. However, CSR is lacking the general and specific definition and various theories and authors approach the concept in a different way.

According to Buhmann (2005), the meaning of CSR is for a company “to do more than what is required by the law”, referring to the voluntary nature of CSR and considering it being separate from the company’s legal obligations. From the stakeholder theory perspective (Freeman, 1984; Freeman and Reed, 1983), firms are accountable for serving various stakeholder groups, and the greater the number of groups they can serve is, the more rewarded they will be. From this point of view, CSR is linked to the profitability of a company, as creating value for various stakeholder groups brings in reverse financial value back to the firm. However, the opposite approach to CSR is the shareholder value theory introduced by Friedman (1970), stating that the social responsibility of a firm is to increase its profits while following the legal norms – being controversial to the Buhmann’s (2005) definition of CSR being additional to the legal obligations.

As Vermander (2014), Tilt (2016) and Thanetsunthorn (2015) suggest, CSR is influenced by the culture, history, economy, and the social development of the country it is being practiced in. Countries in a different stage of economic or social development have different interests and challenges, and therefore, CSR should be assessed in the context of the business environment (Tilt, 2016). In the Chinese context, previous stud-
ies offer two types of approaches to CSR. According to the first view, globalisation and MNCs introduced the concept of CSR to China that was not familiar with the idea of doing business in a socially responsible manner before (Heiduk and McCaleb, 2013). The second view suggests that CSR has strong roots in the Chinese culture and that the social yet political obligations of pre-reform Chinese SOEs were the first form of CSR practiced in the country (Fang, 2010). This research reviews the modern CSR concept in the Chinese business environment and aims to find out whether the “pre-reform CSR” has influenced the social responsibilities of companies in today’s China.

1.2 Chinese business environment and the concept of iron rice bowl

China’s current business environment is an outcome of significant changes that led to the fast growth in the economy. The Soviet-style centrally planned economic model between 1950 and 1978 made all companies state-owned entities and allowed the state to have command over the economic resources and decision-making in Chinese enterprises. Production, consumption, and investment decisions were thus made by the government that also required companies to take care of employees' social welfare in China (Ding et al., 2000). In the Chinese planned economy, enterprises were considered serving their employees and enterprises’ main task was to employ people rather than to make economic and financial outcomes (Zhang et al., 2014).

The concept of “Iron Rice Bowl” is referring to pre-reform Chinese enterprises’ responsibilities towards employees and it consisted of three main functions, as presented by Ding et al. (2000). "Jobs for life" was the main idea in the iron rice bowl, as SOEs were guaranteeing life-long employment for all workers, meaning that once a person was employed by the enterprise, the employment and position in that enterprise was secured for the rest of his life. Secondly, “eating out of one big pot” was a reward system used by SOEs providing equal wages to all, no matter of an employee’s performance, age, or experience. According to the reward system, wages were low as the company provided comprehensive social benefits for all employees and their families, as clarified in the third function of iron rice bowl. The third function, so called “cradle to grave” welfare system, made SOEs responsible for serving employees and their families during their life-long employment. The enterprises offered education, housing, medical services, and served the other needs of employees as a compensation for otherwise low basic wages. Iron rice bowl has also been described as an “organizational dependency”, as it made employees’ welfare and life depend on the organization they were em-
ployed in. Until the reform started in 1978, iron rice bowl was a commonly used welfare system in China and enterprises saw their social obligations as one of the main tasks in business. However, iron rice bowl and its life-long employment practice overmanned companies and led to low productivity in organizations, making China lack behind in the economic development that was taking place in the free market economies. (Ding et al., 2000)

The Chinese state opened its markets to the foreign investment in 1978 and the reforms towards market-oriented mechanisms started to take place across the country (Ding et al., 2000). As MNCs entered China, they often took over the existing state-owned enterprises or planted their own greenfield-site investments, enabling a wider range of ownership to spread in the country (Ding et al., 2000). Through joint ventures, western management styles, policies and techniques started to occur in China, making joint ventures symbolize a gateway to modernization in the country (Ding et al., 2000). However, the concept of “iron rice bowl” was not phased out completely until early 1990s when the state-legislated personnel reforms were introduced (Ding et al., 2000). In 1992, Chinese state allowed the existence of private firms in the country (Harrold and Lall, 1993) and the main functions of “iron rice bowl” were abolished. The introduction of labour contracts allowed companies to recruit according to their needs, canceling the job security and life-long employment, and leading to an increasing number of layoffs as SOEs were allowed to reduce their workforce and get rid of the overmanned capacities (Ding et al., 2000). Through performance-related reward system, wage differences started to exist and “eating out of one big pot” was no longer considered as a valid ideology in the business environment that focused on financial outcomes. Thirdly, the social welfare obligations of enterprises were erased and changed to the contributory social insurance of workers, meaning that the companies were not responsible for providing the welfare benefits anymore (Ding et al., 2000). As the decision-making power was now decentralized and companies were able to make their own decisions regarding workforce, inequalities and lay-offs increased in China alongside with the better productivity, techniques, development, and performance in the business. Reforms and opening the markets thus enabled the rapid growth of Chinese economy, but with the cost of growing social inequalities that the modern CSR is now aiming to decrease. According to Bo et al. (2009), the social welfare investment of companies has been neither fully obligatory or enforced by efficient political initiatives in the post-reform China. As social responsibilities used to stand as a political responsibility of
Chinese SOEs, the role of CSR in the modern economy became somewhat unstructured (Bo et al., 2009).

2 Literature Review

The concept of CSR in China has been studied in previous research papers, but only a few studies have regarded the SOEs' pre-1978 social responsibilities in the background of modern CSR in China. When looking at previous literature on the topic, it is remarkable that most of the studies support the view of MNCs being pioneers of CSR in the country and are focused on examining the development of CSR in an emerging market of China. The main reason for this is that the social responsibilities of state-owned enterprises in pre-1978 China have not been seen equivalent to the modern CSR concept due to their political background, coming back to the definition of CSR being additional to the legal responsibilities of an enterprise (Buhmann, 2005). However, some research papers have considered Chinese cultural and economic background influencing the development of CSR in the country. In the following chapters, previous studies and literature regarding CSR and its evolution in China will be introduced.

According to Vermander (2014), CSR always develops itself around the country’s culture but at the same time, the concept of CSR has been globalized and shared between nations and cultures, and international guidelines are regulating the CSR behaviour of international corporations that operate across the national borders. In addition, Vermander (2014) is noting that CSR is related to the time it is being practiced, referring that the social responsibilities of companies in the pre-1978 China cannot be the same as modern CSR activities practiced in today’s China. As CSR activities used to take place in the form of iron rice bowl that was a part of SOEs tasks, the Chinese government is now aiming to build a new developmental model that identifies sustainability, social fairness, and international standards as key dimensions of development (Vermander, 2014). As a difference to old social obligations that restricted the economic growth in the planned economy, Chinese government is thus aiming to encourage corporations to integrate socially and environmentally responsible practices in their overall business strategies as a modern form of CSR.

Although the social responsibilities of SOEs were a part of Chinese business environment for years, the following CSR issues have been listed as the most significant issues among companies operating in China. Firstly, poor and even hazardous working
conditions have been in the attention of media and non-governmental organizations (NGOs) in the country as many international and national companies have exposed their employees to poor working and living conditions, overtime without compensation, and to unsafe working conditions (Zhe and Yu, 2015; Jiang and He, 2005), being controversial to the social welfare responsibilities provided by enterprises in pre-1978 China. Secondy, legal irresponsibility such as quality issues, financial frauds, tax evasion, and tax frauds, has been a common problem in the Chinese business environment (Zhe and Yu, 2015; Zhang, 2008). In addition, pollution and wasting natural resources have been burdening the environment in China and around the world (Zhe and Yu, 2015; Zhang, 2008).

The most common reasons for low CSR performance and issues described above have also attained attention in previous studies. According to Zhe and Yu (2015), Chinese companies are viewing the public welfare undertakings as an extra burden, making them reluctant to implement CSR activities. Studies have suggested that the main reasons for low CSR performance in China are also the inadequate government supervision and mechanisms for CSR (Jiang and He, 2005; Tan, 2009; Fang, 2010), the lack of financial resources (Zhe and Yu, 2015; Marquis and Qian, 2013), as well as the developing stage and profit-goals of organizations (Zhe and Yu, 2015; Bo et al., 2009). As many private corporations in China are still in their early stages, they are seeing profit concerns as a main goal to maintain their business development and financial outcomes (Zhang, 2008; Bo et al., 2009). In addition, the lack of internal CSR management, systems and awareness have been viewed as reasons for low CSR performance in China (Zhe and Yu, 2015).

Zhang et al. (2014) have examined the development of CSR in China in terms of economic changes and their effect on the social responsibilities of the companies. Although many earlier studies have suggested that MNCs have introduced the term CSR to China (Heiduk and McCaleb, 2013; Tan, 2009; Fang, 2010), the article has a perspective of CSR being increasingly important in the country but having a different kind of evolution from the West. According to Zhang et al. (2014), the concept of CSR is already related to the Chinese culture that is based on Confucian values that appreciate the righteousness and sharing benefits, which is contrary to Heiduk and McCaleb’s view of Chinese CSR concept lacking the ethical driver from the country’s culture (Heiduk and McCaleb, 2013). When approaching the evolution of CSR in China, Zhang et al. (2014) are associating it with the economic reforms and two periods in the history of
China: the socialist planned-economy (1950-1978) and the transitional period (after 1978). The importance of CSR decreased in Chinese enterprises due to the economic changes, but companies are now involving more in the promotion of philanthropic activities such as charity projects (Zhang et al., 2014). Privatizing hospitals, childcare and education has resulted in larger inequalities in the society as people have not had an equal access to such services anymore. However, the environmental issues have gained more attention in modern China due to the fact that economic growth has led to increasing energy consumption, making China one of the most polluted countries in the world. Increasing numbers of Chinese corporations are thus taking environmental issues into account, but the implementation of environmental laws and policies is still lacking. (Zhang et al., 2014)

Previous studies have regarded the pressure of institutions and government as the biggest factors motivating and driving companies’ CSR in China (Tan, 2009; Bo et al., 2009). According to Tan (2009), China’s institutional environment has been lacking as an efficient driver for CSR and thus various CSR violations have taken place in the country. Tan (2009) also mentions that the fast-paced development has led to the inefficient institutional environment in China that is offering weak deterrents for CSR violations. Thus, the legacies of planned economy and the social obligations of firms are not taking place in the economy anymore and the Chinese business culture has changed to highly profit-driven environment where stronger government legislation and intervention could reduce the negative social and environmental impacts (Tan, 2009). According to the study conducted by Parsa et al. (2016), the senior managers and executives of the largest Chinese firms are seeing CSR as an additional activity added to the business once the company has proofed to be profitable, indicating that the profit maximization is now seen as a main goal of a corporation in China. The legacy of iron rice bowl is however dominating Chinese corporations in the way they view social responsibilities (Parsa et al., 2016). Chinese companies are often embedding the social responsibilities in the corporation’s activities and those social responsibilities indicate how employees and their welfare are looked after (Parsa et al., 2016). In addition, the study revealed that Chinese corporations are more eager to involve in social responsibilities than in environmental issues or philanthropical activities regarding the environment. State-owned enterprises found the government’s “harmonious society” guidelines and cultural aspects more important than private enterprises and were also more loyal to the official statements of CSR than corporations with other types of ownership (Parsa et al., 2016). According to Parsa et al. (2016), this often had to do with the sen-
ior member’s political background as most of the managers in the interviewed SOEs were also party members whose positions in the government could be affected by the degree of loyalty to the state.

Previous literature often also compares Chinese CSR with the western countries and suggests that the Chinese CSR commitment is lower than in the west due to the different factors driving companies for socially and environmentally responsible activities. Lo et al. (2008) have studied the CSR commitment differences between Chinese and US companies, finding out that US firms have been more active in the voluntary corporate responsibility (CR) than Chinese firms. Higher expectations and social pressures are driving US firms for CSR whereas Chinese societal basis does not push firms towards responsible actions (Vogel, 1992), supporting the view that the Chinese state has a more active role than the pressure of society in the CSR in China. Since Chinese government’s declaration of “harmonious society” in 2006, companies have paced up their CSR involvement as the government issued guidelines for CSR reporting and a strategy to balance the social and environmental effects of the fast-paced economic growth (See, 2009). Although these guidelines and strategies have not been obligatory laws but rather instructions, the effect indicates governmental pressure being more effective than any international or societal drivers for CSR in China.

Bo, Li, and Toolsema (2009) have studied the social welfare investment of Chinese SOEs that have transformed to joint stock companies after the reform. In the era of planned economy, the main reasons for the social responsibilities were political concerns as SOEs were responsible for maintaining the social welfare in the country. After the reform, the social welfare investment has no longer been either obligatory nor financed by Chinese government, making it less important for companies to pay attention to their social impacts and decreasing the level of social welfare investment in the old Chinese SOEs (Bo, Li and Toolsema, 2009). According to the study, the social welfare investment of Chinese enterprises has transformed to the western form that is mainly profit-driven but SOEs are still providing some voluntary social services in order to motivate employees (Bo et al., 2009). However, the lack of profit concerns makes SOEs’ social welfare investment inefficient, suggesting that the social objectives still dominate profit concerns in motivating the social welfare investment undertaken by Chinese SOEs (Bo et al., 2009).
Furthermore, Marquis and Qian (2013) have studied CSR in China from the perspective of company ownership. According to Marquis and Qian (2013) the political environment is influencing companies’ commitment to CSR. As the state-owned enterprises are still having most political legitimacy in China, they are not feeling the urge to use CSR in order to seek reputations or preferred status (Marquis and Qian, 2013). Therefore, private enterprises are more active in CSR due to their lack of legitimacy and incentive to cultivate their relationships with the Chinese government (Li and Zhang, 2007; Peng and Luo, 2000). Marquis and Qian (2013) have also found the firm’s leadership linked to the CSR reporting, as firms with political connections are more likely to issue CSR reports in China. In addition, the company’s age and financial resources influence the number of CSR reports issued (Marquis and Qian, 2013). Due to the history of the controlled economy, older firms that were founded as SOEs have been less likely to engage in CSR nor feeling the pressure to adopt such norms (Marquis and Qian, 2013). Firms with higher financial resources have been more likely to adapt CSR than companies with limited financial resources, because companies with higher financial resources have also more resources for practicing CSR (Marquis and Qian, 2013).

Although previous studies (Marquis and Qian, 2013; Li and Zhang, 2007; Peng and Luo, 2000) have suggested private enterprises being more active in the implementation of CSR in China, Zhe and Yu (2015) note that SOEs have become more active in CSR due to the government advocating and formulating the CSR practices of state-owned enterprises. Private firms are thus still lacking the CSR awareness and initiatives in the country, leading to various CSR problems in China (Zhe and Yu, 2015). Zhe and Yu (2015) studied the effect of Wenzhou PPP project that encouraged private Chinese firms to CSR implementation as a part of their business and found out that the project was a successful way to increase the awareness, knowledge, and implementation of CSR in participating companies. Zhe and Yu (2015) emphasize the Chinese government’s important role in the CSR promotion alongside with the commitment of enterprise owners and top management. Governmental intervention at the early stages could strengthen the understanding of CSR in private enterprises, making them more aware of the ways of implementing social responsibility in business (Zhe and Yu, 2015).

As the iron rice bowl policies were abolished, a large amount of SOE workers was laid off and eventually moved to the growing private sector that offered higher salaries but less secure positions and fewer benefits than the companies owned by the state (Wang
and Xie, 2015). Wang and Xie (2015) studied the relationship between economic sectors and employee happiness in post-reform China, arguing that the legacy of iron rice bowl was indicated in the state sector that is providing more social welfare to employees than private companies. The study revealed that those workers who have stayed in the SOEs were significantly happier than the workers who had either involuntary or voluntary left state sector and moved to the private corporations. Thus, Wang and Xie (2015) argue social welfare benefits being valued over the financial results among Chinese employees.

Previous literature suggests that Chinese society is influenced by its traditional and cultural values that have shaped the CSR concept in the country. Although the modern concept of CSR has spread to the country via globalisation, the roots for philanthropic activities and employee welfare can be seen already in the culture and traditions of the centrally planned economy and iron rice bowl. According to Irwin (2012), the boundaries between state and business are still blurred in the modern China, and the borderline between the state and communist party remain somewhat vague, making all companies alongside with their CSR activities and business ethics connected with the state and its political agenda. Although most SOEs were transformed to public companies after reforms, state often holds the majority of shares in Chinese corporations, making public officials able to access the managerial positions and decision-making processes in those companies and thus influence the decisions to the direction of favouring the state rather than other stakeholders (Irwin, 2012). According to Irwin (2012), the corporate governance framework has been frail due to the legacy of state interference and centrally planned economy, contributing to the lack of accountability and transparency in China.

Previous studies thus suggest that the level of CSR integration in China is depending on the company ownership, institutions, government, and managers’ political background. Although SOEs’ old social responsibility requirements were similar to the modern CSR activities practiced in today’s corporations, Chinese business environment has been exposed to various CSR violations in terms of employees’ welfare, environmental problems or safety issues that have resulted from inefficient implementation of laws, lack of resources and negative attitudes towards CSR. To find out whether the modern form of CSR in China has legacies of the planned economy’s social obligations, the following chapter discusses the theories that have been used as the basis of the three hypotheses of the study.
3 Theoretical Background

Various theories have approached CSR from different perspectives, either seeing CSR as a relevant or irrelevant part of the business. In this research, the hypotheses have been built based on institutional theory, agency theory and stakeholder theory of CSR.

3.1 Institutional Theory

Institutional theory refers to organizations’ institutional environment and to the aspects of social structure effecting the organizational behaviour (Thianyi et al., 2012). Institutional environment comprises the government and politics of the country, non-governmental organizations (NGOs), unions, and influences all companies that are operating in the same environment. According to the institutional theory, companies can operate with greater freedom once they have gained the support of the society and various stakeholders of the business environment such as government, shareholders, suppliers, unions, and customers (Martinez et al., 2016). The dominant institutions of the business environment are shaping the corporate activities (Brammer et al., 2012), suggesting that the institutional environment and business activities are linked to each other. Due to the differences in institutional environments, corporations operating in different business environments may have different kind of organizational behaviour and activities (Brammer et al., 2012).

When connecting the institutional theory to CSR, the theory suggests CSR activities being shaped by the business environment that is comprised of institutions such as government, non-governmental organizations, and unions. Thus, CSR is either promoted, sustained, or buried topic in the business environment, making companies either active or inactive in their social responsibilities (Tan, 2009). If a company is operating in a market area or country where government and other institutions are encouraging or pushing firms to CSR, it is more likely to adopt social responsibilities and norms than in the area where CSR does not play any role in the society or is not actively driven by any institution (Tan, 2009). Tan’s (2009) view seeks to explain why many MNCs are having so called “double standards” in their CSR activities in different nations and cultures. According to Brammer et al. (2012), institutional theory is also supporting the general view that not one universal definition for CSR exists; institutions are influenced by the historical and political factors, and thus they cannot provide objective and general CSR definition.
In the case of China and this research, institutional theory is linked to one of the hypotheses of the study. As institutional theory suggests that the institutional environment is influencing CSR, this study suggests that the legacy of the planned economy and old social obligations stands in the factor that the CSR activities are strongly influenced by the state in China.

Hypothesis 1: Chinese CSR concept and activities are strongly influenced by the state as a legacy of planned economy period and firms’ old social obligations.

3.2 Agency Theory and Stakeholder Theory

Another theory that this study refers to is the agency theory proposed by Jensen and Meckling (1976). Agency theory generally refers to the relationship between a principal and their agent - a principal referring to the government or other institution and agents being the managers of the companies influenced by principals. According to the agency theory, an agent is accountable for the principal who has employed them. From this point of view, companies and managers are thus accountable for the government of the country they are operating in, also signalling that the business operations are often strongly influenced by the government.

Stakeholder theory (Freeman, 1984) regards that companies are not only connected with the government but also with their internal stakeholders such as employees, managers and owners, and external stakeholders such as suppliers, government, shareholders, customers and society. Stakeholder theory suggests that once the stakeholder value of a firm increases, also the shareholder value grows – meaning that by attracting and serving a variety of stakeholders, the more successful the company will be in terms of financial performance.

In terms of CSR, agency theory and stakeholder theory are often linked to the corporation’s motivations for CSR. From the agency theory perspective, CSR is a tool that the managers use for the purpose of gaining personal benefits and career development, whereas stakeholder theory views CSR as a necessary tool to attract various stakeholders and gain profit in long term. Friedman (1970) has criticised CSR in the view of agency theory, arguing that the managers as agents are only responsible for maximis-
ing the corporation’s profits and thus spending money on something else is a misuse of the relationship between the agent and principal. Furthermore, Barnea and Rubin (2010) have proposed that a firm’s corporate managers, directors and significant shareholders tend to overinvest in CSR expenditures if they can achieve benefits from good CSR ratings. Managers in companies with high CSR ratings may believe that the high CSR performance leads to their individual success and gives a signal for the society that they are respectful for their employees, surrounding communities as well as for the environment (Kao et al., 2014).

As the first hypothesis suggests, Chinese business environment is generally influenced by the state as a legacy of the planned economy. Thus, the motivations for CSR activities in Chinese businesses are often also influenced by the state, either in the form of voluntary guidelines or obligatory laws. Based on the first hypothesis as well as the agency theory, the second hypothesis of this study is that the Chinese firms’ CSR activities are not only influenced by the state but also by the personal benefits achieved from following the state’s CSR recommendations and laws. To connect this hypothesis with the legacy of planned economy, this study proposes that the Chinese managers are not addressing CSR as an additional tool to make profit like the stakeholder theory suggests but rather as a way to gain political merits and reputations.

Hypothesis 2: As a legacy of the planned economy and SOEs’ old social obligations, CSR activities taken by Chinese firms are often political and/or personal reputation movements rather than profit-related activities.

3.3 Company ownership and CSR

The third hypothesis of the study is not related to any CSR theory but rather to the historical background of Chinese economy. During the planned economy period, all Chinese companies were owned by the state, and iron rice bowl was covering the social welfare in the country. The iron rice bowl required companies to take care of their workers' welfare and as state entities, companies’ main goal was to serve people and their needs rather than to focus on their own financial targets. Although private corporations did not exist in the pre-reform China, SOEs were regarded to be owned by the society together, and the employees were considered being “workers-in-state” rather than “workers-in-enterprise” (Fung, 2001). Therefore, firms’ social responsibilities were a part of the corporate operations just like any other business activities in the pre-
reform China. After the reforms, social obligations were taken away from enterprises, making social responsibilities voluntary and additional activities in business.

Privatization of Chinese firms started from the first reform in 1978 and many SOEs were transformed to joint ventures and private corporations, signifying that their whole operation models were changed from serving the state and people to independent and purely profit-focused organizations. Chinese market started to attract international businesses that often had a mentality to gain profit with the social costs of the country, leading to the assumption that business operations in China are linked to be a negative influence on company’s public image and reputation (Buhmann, 2005). The new economic model drove former SOEs to a new situation where serving the society and operating in a socially and environmentally responsible manner was desirable but making profit and focusing on financial targets was essential for surviving in the increasing competition. Due to the iron rice bowl, SOEs and former SOEs were used to maintain their employees’ social welfare and had the necessary resources for such practices, whereas new private corporations had to set up their activities from the beginning. In addition, as the iron rice bowl only regarded social welfare, the environmental issues received less attention among SOEs in China. From this point of view, the third hypothesis of this study is:

Hypothesis 3: As a legacy of the iron rice bowl, Chinese SOEs have more awareness of creating social welfare than private companies but less interaction on environmental issues than other companies.

4 Research Methodology

This research is fully based on secondary sources such as other research papers, books and articles that offer information and different views regarding CSR, Chinese business environment and economy, Chinese SOEs, and most importantly, about CSR in China. As the research question involves the legacy of pre-1978 social responsibilities of state-owned enterprises in the current Chinese business environment, the main focus stands in the social aspect of CSR, including social welfare and the legacy of iron rice bowl in the modern concept of CSR in China.

To gain as analytical and critical an approach to the research as possible, various articles, reports, books and studies from different authors and sources have been studied.
In addition, the research has focused on studying the CSR reports and communication of ten randomly selected large Chinese companies with different ownership types (see table 1). The findings of the study are also based on a CSR survey of Chinese companies conducted by CSR Asia-organization and the Swedish Embassy in Beijing (2014) and to the study of CSR reporting in the China’s largest corporations conducted by Morhardt et al. (2009) for the Roberts Environmental Center that focuses on the analyses of sustainability reports.

To test the first and second hypotheses, the government’s effect on CSR was studied by comparing the Chinese government’s CSR legislation and guidelines to the amount of CSR reports issued in China in the same period of time, and by looking into the CSR Asia’s and Swedish Embassy’s (2014) survey regarding CSR in China. In addition, the study included a comparison of CSR reports to see if there is a difference in the CSR communication and if the companies are targeting their CSR communication for Chinese government or for other institutions and stakeholders. The third hypothesis was tested by also comparing the CSR reports and their content regarding social welfare and environment.

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<td>State Grid China</td>
<td>SOE</td>
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<td>CNPC (China National Petroleum Corporation)</td>
<td>SOE</td>
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<td>China CITIC Bank</td>
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<td>AAC Technologies</td>
<td>Public</td>
</tr>
<tr>
<td>Lenovo</td>
<td>Public</td>
</tr>
<tr>
<td>Ping An Insurance Group</td>
<td>Public</td>
</tr>
</tbody>
</table>

Table 1. List of Chinese companies and their ownership types.
5 Findings

In the following section, the findings based on above described literature, studies and CSR reports will be introduced. Each hypothesis will be addressed individually, after which other findings of the study will be discussed.

The first hypothesis refers to the institutional theory and suggests that Chinese CSR concept is strongly influenced by the state as a legacy of the planned economy and the old social obligations it required from its SOEs. As the centrally planned economy was based on the idea of state intervening in every aspect of the economy (Oi, 1995), the government’s big role in the pre-reform Chinese economy was undeniable. Previous studies have also regarded government as a strong influence on how Chinese companies assess CSR in today’s China (Kao et al., 2014; Tan, 2009), that can be linked to the legacy of planned economy’s social obligations. Although China has adapted the market-based approaches and transformed to a socialist market economy, the Communist Party of China is leading the country’s political and economic decisions (Dumbaugh, 2009). As far as the political and economic decision-power is under one party, also the CSR practices and Chinese culture are strongly influenced by the government and the political agenda of the Communist Party (Lawrence and Martin, 2013), making Chinese CSR also differ from the CSR concepts and practices defined by international organizations. According to an online survey conducted by CSR Asia-organization and Swedish Embassy in Beijing (2014), government is considered as a key driver for CSR in China, and over 75% of the respondent companies listed the state as a number one CSR influencer, leaving international clients and media in the second and third position. In addition, the survey reveals that the CSR legislation by the Chinese government is considered being more effective than the international CSR standards.

As the Chinese state called companies for social welfare obligations in the planned economy, the iron rice bowl was a dominant ideology in the country for 30 years. Iron Rice Bowl was founded to moderate the massive unemployment that had occurred in China after the Japanese invasion and civil wars (Fung, 2001). As the iron rice bowl guaranteed life-long employment for every worker, the unemployment rate was soon alleviated, but when the government took social obligations away from the SOEs, the main focus of the whole country was in the economic growth that led to layoffs and growing social inequalities (Wang and Xie, 2015). Although MNCs introduced the mod-
ern concept of CSR to China via globalisation (Heiduk and McCaleb, 2013; Tan, 2009; Fang, 2010), local companies were still used to following the state’s orders rather than competition or international standards defined by other institutions (Zhang et al., 2014). As the low CSR commitment of Chinese companies has been explained with the insufficient government control of CSR in the previous studies, also the legacy of planned economy and social obligations can be seen in the fact that Chinese companies consider CSR when it is either obligatory or driven by the government, as in pre-1978 China. Chinese business environment has been lacking the driver for CSR and as a legacy of old social responsibilities, Chinese companies have been viewing CSR as an additional burden that prevents them from being profitable.

Some previous research suggest that Chinese companies rather follow the national government than international institutions, whereas multinational companies operating in China are paying more attention to the CSR guidelines set by global institutions (Heiduk and McCaleb, 2013; Tan-Mullins and Hofman, 2014). As an effect of the government’s influence on CSR, Chinese CSR concept is thus culture-oriented and affected by the political and economic agenda of the country, which is indicated in the amount of CSR related laws set after the enormous economic growth and its negative social consequences (see table 2). In 2006, Chinese government announced its goal of building a “harmonious society” that would aim to balance the gap between economic growth and social inequalities in China. Since then, the amount of CSR related laws and guidelines has increased in China as indicated in the table below.

<table>
<thead>
<tr>
<th>Year</th>
<th>Law</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>Law on Work Safety</td>
</tr>
<tr>
<td>2005</td>
<td>CSR addressed in the Company Law</td>
</tr>
<tr>
<td>2007</td>
<td>Guidelines for the State-Owned Enterprises Directly under the Central Government on Fulfilling CSR; Employment Promotion Law; Labour Contract Laws</td>
</tr>
<tr>
<td>2008</td>
<td>Circular Economy Promotion Law</td>
</tr>
<tr>
<td>2010</td>
<td>Social Insurance Law</td>
</tr>
</tbody>
</table>

Table 2. Some of the CSR related laws set by the Chinese government between 2002-2011. (Source: Vermander, 2014)
When the focus was on economic growth, CSR was ignored in the Chinese economy and companies often operated with the cost of socially irresponsible behaviour. The turning point can be identified when Chinese government addressed CSR in its political agenda in 2005 and included the concept of CSR in its corporate law (Vermander, 2014). Although the first sustainability report was already published in 1999 by multinational corporation Shell China (Morhardt et al., 2009), the effect of above-mentioned laws and government (see table 1) is clear in the amount of CSR reports issued in China after 2005. By the end of 2005, seven companies had issued CSR reports in China, and one year later the amount of sustainability reports was 18, increasing to over 100 in 2008 (Morhardt et al., 2009; Bloomberg, 2013). State Grid Corporation of China was the first-ever Chinese SOE to publish a CSR report in 2009 (Liu, 2015; State Grid Corporation, 2018), leading to an increasing number of CSR reports among Chinese state-owned enterprises (Morhardt et al., 2009). Government actions regarding CSR have thus significantly increased the amount of CSR reports issued in China, indicating that the government is affecting the CSR behaviour of corporations in the country.

According to the institutional theory, CSR is influenced by not only governments but also by other institutions in the business environment. In terms of CSR, global organizations such as United Nations are usually enforcing sustainable and responsible business operations across markets and cultures. To see if the legacy of planned economy's social obligation exists, CSR reports were analysed on the basis of whether the communication was emphasizing Chinese government or other institutions.

The CSR reports of ten different Chinese corporations indicate that the Chinese government is having a strong influence on companies' CSR activities, as only one of the companies did not emphasize its support to Chinese law or Chinese government in its latest CSR report. However, eight companies also emphasized their attention to international CSR guidelines issued by global organizations such as the United Nations, which indicates that Chinese companies’ CSR activities are increasingly influenced by other institutions than the government. Companies and their emphasis on either Chinese government or international institutions are represented in the following table (see table 3).

The legacy of planned economy can be also seen in the CSR reports as some of the companies stated their co-operation with Chinese government and their support to the
Five-Year Plans or goals of the Chinese state. Bank of China (2018) stated that it is making “a greater contribution in developing a modernised economy and to the efforts to realise the Chinese Dream of national rejuvenation and the aspirations of the people to live a better life” (Bank of China, 2018), signalling its high commitment to Chinese state and its policies. In addition, State Grid China (2017) announced that it is making “greater contributions to the Chinese Dream” with its CSR performance. Although previous research suggests that the Chinese CSR concept is moving to more philanthropic direction (Zhang et al., 2014), MNCs are listed as the most charitable firms in China (Morhardt, 2009), signalling that Chinese private and state-owned companies and their CSR activities are still motivated by the Chinese law and the political agenda of the country rather than by voluntary activities. Therefore, the first hypothesis of this study is partly supported, and institutional theory can be understood as a relevant CSR theory in the Chinese concept. However, the government alone does not influence the Chinese firms’ CSR involvement. As signified in the CSR reports of State Grid China (2017), Sinopec (2018) and AAC Technologies Holdings (2017), international institutions such as United Nations are increasingly driving Chinese firms for more sustainable and responsible behaviour and thus diminishing the legacy of planned economy’s social obligations.

<table>
<thead>
<tr>
<th>COMPANY</th>
<th>CHINESE GOVERNMENT AND CSR LEGISLATION ADDRESSED</th>
<th>INTERNATIONAL INSTITUTIONS AND THEIR CSR GUIDELINES ADDRESSED</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Grid China (2017)</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>CNPC (China National Petroleum Corporation, 2018)</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>China CITIC Bank (2016)</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Bank of China (2018)</td>
<td>x</td>
<td>-</td>
</tr>
<tr>
<td>Sinopec (2014)</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Huawei (2017)</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Alibaba Group (2018)</td>
<td>-</td>
<td>x</td>
</tr>
<tr>
<td>AAC Technologies (2017)</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Lenovo (2017)</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Ping An Insurance Group (2018)</td>
<td>x</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>*based on latest available CSR reports and/or information from companies’ websites</td>
<td></td>
</tr>
</tbody>
</table>

Table 3. Ten Chinese companies and their emphasis on either Chinese government’s or international institutions’ CSR guidelines.
The second hypothesis of the research is connected to the agency theory and the stakeholder theory and suggests that as a legacy of the planned economy and its social obligations, the CSR activities of Chinese SOEs are often rather political and/or personal reputation movements than profit-related activities. As the amount of CSR reports has increased after the Chinese government introduced CSR in its corporate law, government motivated companies to add responsible activities to their business. According to Marquis and Qian (2014), SOEs and companies with CCP (Chinese Communist Party) ties are more likely to adapt and present their CSR practices than MNCs or companies without political connections, signalling that the state is a driving or pressuring CSR force for SOEs. Being the first SOE to publish a CSR report in China, State Grid China received high appreciation from the Chinese government (Morhardt et al., 2009), and other companies, especially SOEs, followed in order to receive similar appreciation and reputation, indicating that the CSR practices lead to better connections with the government in China.

As already mentioned to support the first hypothesis, the survey made by CSR Asia and Swedish Embassy (2014) ranks “compliance with Central Government policy”, “legislation and regulations”, “reputation enhancement” and “requirements of international clients” as the top three drivers to implement CSR in Chinese companies (CSR Asia and Swedish Embassy, 2014). The study also concludes that Chinese businesses often see CSR as a cost rather than as an opportunity that leads to profit in long-term, supporting the view that stakeholder theory is not relevant in the Chinese context. “Cost-saving” is ranked as the least significant driver for CSR activities among Chinese firms, reflecting that CSR is considered to cut “into profitability” (CSR Asia and Swedish Embassy, 2014), and supporting the finding that Chinese managers consider CSR activities and reporting only once the goal of profit maximisation has been achieved (Parisa et al., 2016). Chinese firms and especially SOEs are thus practicing CSR from other than profit-related purposes – the main reasons being the government and reputation building, as stated in the previous studies and surveys (CSR Asia and Swedish Embassy, 2014; Kao et al., 2014; Cheng et al., 2015), and supporting the view of the second hypothesis. Kao et al. (2014) state that the CSR ideology among Chinese SOEs is driven by politics and is not serving a variety of stakeholders nor reaching better financial outcomes for the firm. The view of agency theory is also supported in the content of some Chinese firms’ CSR reports – especially in the SOEs or in the public enterprises with strong ties to the government. Bank of China (2018) and State Grid China (2017) have highlighted their commitment to Chinese government’s goals in their CSR reports,
indicating that their CSR communication is addressing the Chinese state and aiming to gain reputations. Based on these findings, the second hypothesis is supported as the motivations for CSR are rather reputation- than profit-focused. As a legacy of the pre-1978 social responsibilities that hindered the economic growth, it is also linked to the mindset of social responsibilities being a burden that only cuts the firm’s profits and results in low productivity in today’s profit-driven economy.

The third and final hypothesis of the study proposes that as a legacy of the iron rice bowl, old Chinese SOEs which may have turned to public corporations, have more awareness of creating social welfare but less incentives for environmental responsibility than private corporations. According to the previous literature, Chinese SOEs tend to follow the traditional approach to social insurance provided for their employees, whereas private corporations are making less contributions on the social insurance costs that employees carry themselves (Ding et al., 2000). When studying the ten companies’ CSR reports, no significant differences in the amount of social insurance contributions could be found. Most of the reports did not mention the amount of social insurance costs at all and thus no conclusions could be made based on the ownership type and CSR communication of the company. However, the Chinese government established a national basic insurance framework for employees in 2011, covering all workers across mainland China and consisting of five insurance programs: pension, medical insurance, work-related injury insurance, unemployment compensation and maternity insurance (China Business Review, 2012). According to China Labour Bulletin (2016), China has however aimed to shift the social insurance burden to workers themselves, since the employers did not implement such responsibilities effectively. These findings do not thus support the legacy of iron rice bowl being relevant in today’s social insurance provided in either Chinese SOEs or private companies. Findings rather suggest that Chinese employers see social responsibilities as a burden that is not voluntarily integrated into business.

The ten companies’ CSR reports provide no significant proof for the suggestion that SOEs would have less awareness or emphasis on the environmental aspects of CSR than other types of corporations. Both social and environmental issues and responsibilities are addressed in all CSR reports, no matter what kind of ownership type the company is. The most addressed issues in the CSR reports are environment, health, safety, and public welfare, including the social benefits of workers. In fact, the environmental issues and public welfare have received more attention in the latest CSR publi-
cations, as pollution, environmental challenges and poverty have also been in the attention of media, NGOs, and government in China, supporting also that the institutional environment pushes Chinese companies to more sustainable direction. Thus, the third hypothesis of this study is not supported, since the ownership type of a company does not prove to affect the area of CSR interests or social welfare provided by the company.

When studying literature, articles and research papers regarding Chinese CSR, the main finding is that the legacy of planned economy and the old social obligations is rather in the attitude towards CSR than in the actual CSR practices. As the concept of modern CSR is fairly new in China, the general mindset towards CSR is related to the old social obligations, identified in the ideology that CSR is rather a burden than an opportunity to gain more financial outcomes and used to establish better connections and reputations among managers and corporations. Because the iron rice bowl was an obligatory system for social welfare, CSR in China is proven to be most effective when it is obligatory, as the amount of CSR reports published after Chinese government’s CSR laws indicates. In the next chapter, all findings will be further analysed, and the limitations of the study identified.

6 Analysis and discussion

To further analyse the findings supporting the first hypothesis, it is proved that the Chinese government is influencing the Chinese concept of CSR as a legacy of pre-reform social and political obligations. When Chinese government cancelled firms’ social obligations and the iron rice bowl in the reforms, SOEs changed their focus to the financial goals and got rid of most of the social welfare benefits, as it was no longer legally defined as a responsibility of a firm. Being used to the influence and commands of the state, Chinese SOEs did not have the urge to implement sustainable or socially responsible strategies to their business when the government’s focus was in the economic growth of the country. However, as the findings also indicate that the other institutions are a driving force of CSR in China, the legacy can be considered as a decreasing factor and the impact of international NGOs as an increasing force to push Chinese companies to more responsible direction. Out of the ten companies and their CSR reports, the United Nations Global Compact and the UN Sustainable Development Goals were mentioned by more than half of the corporations, signalling that Chinese companies are aware of the international pressure and development, and not only focusing on
the Chinese government’s CSR guidelines and legislation. However, the Chinese firms’ support for all institutions can be considered as a legacy of the planned economy and the old social obligations because of the mindset to establish a legal or institutional basis for the CSR activities. In addition, the Chinese government has encouraged firms to identify international standards as a dimension of development (Vermender, 2014), signalling that the business environment in China is still moving to more global direction.

The amount of CSR reports has increased in China after Chinese government shifted its focus back to more social aspects, indicating that the government is influencing Chinese companies’ main activities and motivating Chinese companies to more responsible and sustainable direction. In addition, the finding supports the view of second hypothesis and agency theory. The findings suggest that the motivations for CSR are based on reputation building, as the CSR reports are mainly used for communicating the business strategies and activities for reputation purposes. In the selected CSR reports, the communication was mainly directed for Chinese government or written to address the international CSR guidelines. To compare the findings between different ownership types, SOEs or companies with strong government ties were emphasising their support to governmental laws more than public companies, signalling that the reputation and good terms with the state are more important for SOEs. However, it is also important to remember that the state-owned enterprises are naturally more influenced by the state as their owner, and they do not have the need to attract shareholders and investors in their CSR communication. The CSR reports do not either always tell the truth about sustainable business practices as they are written for reputation purposes.

Linked to the first and second hypotheses, findings regarding CSR in China indicate that the role of non-state actors and various stakeholders is smaller than the state’s role in the adoption of CSR in China. As the “act of gift-giving” is regarded as an essential part of Chinese business culture, Chinese firms are often practicing bribery and corruption (Tan-Mullins and Hofman, 2014). In the view of agency theory, this cultural aspect can also affect the government – company relationship as the managers see themselves liable to be loyal to the government and its political agenda as a “gift” and are obeying and supporting the governmental guidelines to receive something back from the government, such as promotion or better position in the eyes of the state. The findings of the second hypothesis are easy to connect with the legacies of pre-reform
China, as the social obligations in the planned economy were not leading to reduced costs or increased profit in long term. Since the social responsibilities of pre-reform Chinese enterprises were political obligations that burdened enterprises and led to low productivity, companies are still perceiving CSR as an additional burden to maintain good political connections rather than as a tool to also save costs or gain more profit in long term.

The findings of the study did not support the third hypothesis which suggested that as a legacy of iron rice bowl, Chinese SOEs are having more emphasis on the social welfare than other companies, and less emphasis on environmental aspects than companies with other types of ownership. When connecting this to the findings of the first hypothesis and the influence of institutions in the Chinese CSR, it is notable that the Chinese government has recently expressed its concerns regarding pollution and environmental challenges in China, calling for officials taking environmental issues seriously and targeting environment in the most recent Five-Year Plan (The Diplomat, 2017). Thus, Chinese companies have faced more pressure for their environmental impacts from the government, making them focus on such topics regardless of the type of corporation. However, the findings indicate that although Chinese government has assessed social responsibilities of companies, firms have been reluctant to follow such social insurance frameworks. As the legacy of iron rice bowl has formed negative attitudes towards social welfare among employers, companies in China are having a more positive mindset towards environmental issues and their mitigation. Thus, with the governmental pressure, the focus of improvement remains in the environmental challenges rather than in the social aspects that are seen as a burden.

The legacies of planned economy and iron rice bowl are thus existing at some level in China, but it is discussable whether they are having a negative or positive influence on the concept of modern CSR perceived in the country. As a negative influence, the strong effect of government and politics has made China a “latecomer” in the modern CSR, since the post-reform CSR activities have started to take place only after the government started to implement the strategies of “harmonious society” in 2006. By then, the cancellation of iron rice bowl had already resulted in the increasing amount of layoffs and larger social inequalities, and rapid economic growth had caused its negative impacts on the environment and public welfare. Thus, the Chinese business environment has been exposed to socially irresponsible activities and CSR issues in China have been relatively challenging and difficult to monitor and improve. The governmen-
tal influence can also explain the low CSR performance in China as it may serve the needs of the government rather than the needs of society. Another factor that can be considered as a negative influence is that the Chinese government may use CSR as a political tool in response to international pressure and to gain reputations globally. In addition, the general mindset of seeing CSR as a burden is complicating the overall CSR implementation in China.

The positive influence of the legacy of pre-reform China and iron rice bowl is that the government and institutions are serving a legal basis for CSR and the business environment is thus offering opportunities and support for sustainable and responsible business activities. The growing importance of NGOs is signalling that the Chinese business environment is open for international and non-governmental regulations, although the factor is decreasing the legacy of planned economy and its social obligations. The tradition of iron rice bowl also regards that the old Chinese firms are familiar with the possibilities of social welfare and that the implementation of such activities is not a new subject in their business.

Although the findings indicate that the legacy of planned economy and its social obligations exists in Chinese business environment and in the modern concept of CSR perceived in the country, it is important to understand that the legacies can be also seen as common features of the socialist market economy where state is intervening more in the economy than in free market economies. According to Oi (1999), the local governments are forming “developmental alliances” with Chinese firms, and Blecher and Shue (1996) argue that the state involvement in China has formed a new “developmental state”. According to Karmel (1994), the Chinese economy is transforming to the capitalism managed by the state, supporting the view that state intervention is not only a legacy of planned economy but also a feature of post-reform China. The state intervention in CSR can be also perceived as a necessary action to establish a solid ground for sustainable activities, as CSR development in China is still considered to be in the early stage (Fang, 2010).

6.1 Limitations

The following limitations should be considered when looking into the findings of the study. First of all, a survey or interviews could have been conducted in order to get the most accurate findings, but as the time frame and resources did not allow such proce-
The best way was to conduct research based on secondary sources such as previous literature, studies and CSR reports of different companies. However, as CSR is considered as a relatively new topic in China, the range of literature on the topic was narrow. In addition, some relevant studies and sources were available only in Chinese.

In the Chinese context it is also important to understand that as the state is intervening in the economy, also the media and the communication of local companies are highly influenced by the Chinese government. Thus, although CSR reports are communicating the social and environmental activities, goals and strategies of companies, they are written in the purpose of attracting the most important stakeholders such as government or shareholders, depending on the ownership type of the corporation.

7 Conclusion

The aim of this study was to find out whether there is a legacy of SOEs pre-1978 social responsibilities in the Chinese business environment that has changed from centrally planned economy to socialist market economy and faced a rapid economic growth in the past decades. In the centrally planned economy between 1949 and 1978, Chinese state was controlling the economy and state-owned enterprises focused on providing life-long employment and social welfare benefits to their employees and their families, the concept known as iron rice bowl. After 1978 such social obligations were abolished by the government, enabling a fast growth in the economy as companies were able to make their own decisions and focus on their financial outcomes instead of serving the society and providing life-long employment. However, the profit-driven ideology made companies work with larger social costs, leading to irresponsible business behaviour among companies and to larger inequalities in the society.

The modern form of CSR has tried to decrease the negative impacts of economic growth in China, and this study was conducted to find out if the legacies of planned economy and iron rice bowl are relevant in the current form of CSR in China. In general, CSR relates to the companies’ social and environmental responsibilities towards various stakeholder groups meanwhile doing business, but the cultural impacts have proofed it difficult to provide one specific definition for corporate social responsibility. This study was based on three theories that approach CSR in different ways and the research was conducted by looking into previous studies and literature regarding CSR in China. In addition, CSR reports of ten different Chinese companies were studied.
Three hypotheses were founded based on the theoretical background of the study. The first hypothesis was based on institutional theory that regards the institutional environment of the company as a main factor for CSR activities. In the view of institutional theory, the surrounding institutions either promote or hinder the development of CSR in the business environment, making companies either active or inactive in the field. As previous studies regarded the government as a main driver for CSR in China, the first hypothesis stated that the Chinese CSR concept and activities are strongly influenced by the state as a legacy of planned economy period and firms’ old social obligations. The findings supported the first hypothesis, indicating that the state still has a control over the social responsibilities at some level in Chinese firms and that the institutional environment is strongly impacting the CSR activities taking place in China. However, the findings also proofed the increasing effect of international institutions and their regulations in terms of CSR performance in China.

The second hypothesis of the study was related to two theories that have opposite approaches to CSR. According to the stakeholder theory, CSR activities help firms to attract various stakeholder groups and thus gain more profit in long term, making companies’ CSR motivations profit-related. The view of agency theory suggests that the CSR motivations are rather linked to the managers’ desires to get reputations and to build better relationship with the government. The second hypothesis argued agency theory being more relevant than stakeholder theory in the Chinese context, and it suggested the legacy of the planned economy and SOEs’ old social obligations being in the fact that CSR activities taken by Chinese firms are often political and/or personal reputation movements rather than profit-related activities. During the iron rice bowl, Chinese firms were overmanned, and their productivity was low, which resulted in the mindset of seeing CSR activities as a burden to gain financial outcomes in the modern China. The findings supported the second hypothesis, since government was regarded as a main driver for CSR, and Chinese companies were seeing CSR rather as a cut into profitability than as a tool to gain more profit. In addition, the CSR reports of Chinese corporations provided support for the reputation building, as especially SOEs emphasized their support for governmental goals and development in their CSR reports.

The third hypothesis of the study suggested that as a legacy of the iron rice bowl, Chinese SOEs have more awareness of creating social welfare than private companies but less interaction on environmental issues than other companies. The third hypothe-
sis was not supported as no significant proof for better or worse social welfare awareness and activities was found. In fact, the findings proofed environmental issues being in the focus of many Chinese corporations as the Chinese government has set new environmental regulations and called companies for being more conscious regarding their environmental impacts. Overall, the research supported the legacy of pre-1978 social responsibilities being in the CSR perceptions rather than in the actual CSR activities in China, noting that companies are often seeing CSR as a burden that prevents firms from achieving their economic outcomes in the same way as iron rice bowl hindered the economic development in pre-1978 China. The government influence on CSR in China is undeniable but it is questionable whether it is just a feature of socialist market economy where state intervention is more common than in free market economies. The CSR performance in China seems to be most effective when obligatory or pressured by the government, which can be seen coming from the legacy of old social obligations and indicating that the CSR concept in China is formed of the country’s economic history.

This study offers opportunities for further research. As this study provides a completely literature-based view towards legacy of iron rice bowl and CSR in China, interviews and surveys could be made to find out the personal CSR motivations of Chinese employers and to further study how Chinese managers perceive the iron rice bowl and its legacies in Chinese business environment. In addition, further research could be conducted to view the legacy of iron rice bowl as an opportunity for better CSR performance in China. The institutional influence on Chinese CSR could be also further researched to see how Chinese companies find the government and other institutions influencing their social and environmental responsibilities. By studying the cultural and historical aspects behind the Chinese CSR, the challenges and opportunities for better CSR performance in China can be identified.
References


