

Corporate Social Responsibility in China: a Preferential Stakeholder Model and Effects

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ABSTRACT

Research interest in examining corporate social responsibility (CSR) in developing economies is on the rise; however, our knowledge of the role of government in CSR remains limited. The aim of this paper is therefore to bridge this gap with an investigation into the specific CSR strategies that global firms have developed in the world's largest emerging economy and a nominally communist country, namely China. Drawing on institutional theory and a relational governance perspective, we posit that rather than adopting a canonical holistic CSR stakeholder model as typically observed in Western countries, these firms adopt a preferential stakeholder model using government-aimed and consumer-aimed CSR strategically. Our empirical study sampled 17 global retailers operating in China, with a dataset compiled to include their CSR web announcement data and firm performance data. The results of partial least squares modelling suggest that only government-aimed CSR plays a salient role in enhancing retailers' performance. Copyright © 2012 John Wiley & Sons, Ltd and ERP Environment

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Introduction

THE NOTION OF MAINSTREAM CORPORATE SOCIAL RESPONSIBILITY (CSR) RELATES TO A COMPANY'S PERCEIVED SOCIETAL or stakeholder obligations (Brown and Dacin, 1997), and aims to improve social conditions (Godfrey *et al.*, 2009). But it is not difficult to observe that CSR appears to be a Western-defined concept, because its origin is deeply rooted in the democratic capitalist countries (Habisch *et al.*, 2005; Carroll, 2008; Moon *et al.*, 2010). Therefore, such 'responsibilities' are typically associated with American and European perceived societal or stakeholder obligations (Ramasamy and Yeung, 2009). Indeed, central to the spirit of CSR is its stakeholder doctrine, in which a firm holds its employees, customers, community and government together as stakeholders (Lockett *et al.*, 2006); CSR can be used to signal management acumen to stakeholders and investors (Alexander and Buchholz, 1978).

Recently, there has been much debate about the paucity of literature examining CSR in developing countries: their economic, social and legal institutions are undergoing unprecedented changes, creating severe challenges for the Western-defined CSR paradigm. Kolk *et al.* (2010), for instance, found that Chinese domestic and foreign retailers have different dimensions for reporting their CSR. Idemudia (2011) point out the urgency of readdressing

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CSR from a South-centred/developing agenda, in which concerns and priorities are invariably different from those of Western countries. Further, they find an examination of the role of government to be particularly lacking for developing countries. Moon and Shen (2010) agree that CSR in a developing, non-democratic country such as China is in a rather different situation from CSR in Western countries: 'CSR [...] the concept traditionally associated with discretionary activity beyond that required by government, is now endorsed and encouraged by a government still, symbolically, at least, influenced by Marxism-Leninism, and a Communist Party' (Moon and Shen, 2010, p. 615).

Indeed, as China has become the world's second largest economy after the USA (Financial Times, 2010¹), the possible differences in CSR that may arise from China's unique market and institutional environment (Li *et al.*, 2009; Kolk *et al.*, 2010; Sheng *et al.*, 2011) are yet to be detailed, and there has been little research in this area. It appears that, the very nature of CSR – predominantly a Western-bounded concept – may weaken its general applicability.

The aim of this paper is to understand the development of CSR theory from the point of view of the contemporary Chinese environment, and in particular to shed some light on the role of the government in CSR – an area which has very little coverage in the existing literature. Motivated by the aim of filling this gap, this study addresses the following two specific research questions. As the emerging Chinese economy has its own distinctive economic, social, and legal institutions: (1) who are the crucial stakeholders for CSR of foreign firm in China and (2) what are the effects of CSR on the financial performance of firms? To date, it remains unclear whether foreign firms in China adopt the stakeholder viewpoint of CSR in which firms target its employees, customers, community and government together as stakeholders (Lockett *et al.*, 2006) in a systematic manner.

We selected foreign retailers in China for our empirical investigation, for four reasons. First, current academic research on CSR in China is biased towards manufacturing industry (Cheung *et al.*, 2010; Li and Zhang, 2010). We therefore choose to draw samples from global retailers in a more service-oriented industry. Second, retailing is one of the few industries that have a high negative impact on the environment – the various possible externalities from its supply chain, packaging and employment. Third, after China's accession into the World Trade Organization (WTO) where foreign direct investments are permitted, major global retailers are now operating in China, and they are usually one of the few major employers (Jones *et al.*, 2005). Fourth, most global retail firms have set up dedicated and ever-more sophisticated CSR sections and update their CSR announcements on their corporate website regularly. This has offered rich data sources for earlier studies of CSR in China (Kolk *et al.*, 2010). Therefore, our choice of the retail industry has a better foundation to build on and to create a degree of continuity for this stream of research.

The paper is set out as follows: we began with a conceptual development of the types and effects of foreign retailers' CSR in China, drawing on institutional theory and relational governance theory. We then propose a theoretical framework with hypotheses based on our conceptual development. Data were collected from 93 firm-year observations based on 17 leading global retailers' corporate CSR web announcements and secondary datasets on firm performance in China from 2001–2009. A partial least squares (PLS) modelling technique was employed to test the hypothesised relationships. Finally, we conclude our paper by discussing our results, contributions to the literature and managerial implications.

Theory and Hypotheses

In a developed Western society, CSR is broadly defined as an 'organisation's status and activities with respect to its perceived societal obligations' (Brown and Dacin, 1997, p. 68). Nevertheless, there is no strong consensus on a definition for CSR (McWilliams *et al.*, 2006). For one thing, as per Brown and Dacin's (1997) definition, CSR is for fulfilling societal obligations. Yet societal obligations as largely perceived are also constantly changing, and particularly so in cross-border and cross-cultural contexts. Ethically, what is perceived as acceptable or pro-social may not be so in all countries, or at may least appear less effective from a firm's strategic perspective. As Davis puts: 'social responsibility begins where the law ends. ... It is a firm's acceptance of a social obligation beyond the requirement of the law'. This criterion implies a certain standard of legal system in the country in which the company is

¹Online source: <http://hanopolis.com/?articleNo=29131&story/China-overtakes-Japan-as-worlds-2nd-largest-economy>

operating. In a developing country such as China, which has become the world's fastest growing market, the social, legal, and economic institutions are all undergoing considerable change. However, when the environment is changing, corporate orientation and strategy are also changing, particularly for global retailers (Alexander and Doherty, 2010).

We therefore theorise that global retailers in China do not adopt a typical mainstream canonical Western CSR format aiming at their employees, customers, community and government as equally important stakeholders (Lockett *et al.*, 2006) in a systematic manner. Instead, an actor-specific, preferential stakeholder CSR model is adopted in China with two types of CSR, at least at the current stage: government-aimed CSR and consumer-aimed CSR.

First, according to institutional theory (Scott, 2004), we posit that after entering the Chinese market, foreign firms quickly learn the deeper and more resilient aspects of Chinese social structure and become acclimatised to Chinese schemas, rules, norms and routines. This learning is accelerated for those retailers who have merged with or acquired local Chinese retail chains (Kearney, 2010). In Western societies, firm leaders from Fortune 500 companies, for example, regard CSR as a dual-purpose tool both to contribute to society and to boost the firm's performances when used properly and wisely. Thus, large firms operating in China have the capability to re-define and re-implement their CSR for the host market.

In China, facing the dual pressures of making their expected contribution to the welfare of Chinese society and a good business performance in the emerging Chinese economy, foreign retailers have to strategically redefine and optimise their Western CSR agenda to suit the Chinese context. Institutional pressures have been suggested to be a key factor driving firms' proactive environmental strategies (Sangle, 2010). Despite the fact that CSR has been institutionalised in the Chinese legal system, there is a large amount of 'ambiguity and unpredictability in rules and deficiency in implementation'. Debate on the nature of CSR, therefore, as either an exhortatory provision or a fiduciary duty under company law, is heated (Qu, 2007, p. 96). Under the unique Chinese political economy, current Chinese domestic companies are reported to be reluctant to devote themselves to CSR activities (Li and Zhang, 2010; Moon and Shen, 2010). Therefore, the 'foreignness' of global retailers in China inevitably bears costs arising from the Chinese government's expectations and legal requirements that foreign retailers fulfil their CSR duties, given their institutional pressures, their financial resources and ambitions in China. Being 'foreign' actually translates into having a responsibility to promote CSR in China.

Second, we also draw on a relational governance perspective (Rindfleisch and Heide, 1997): building relational ties with the government and consumers benefits a firm by way of an informal means of governance for coordinating exchanges. This is particularly relevant for the retail industry which serves as the last link in the supply chain that interacts directly with consumers on a daily basis.

In modern China, a stable and unified legal framework has not yet been established (Luo, 2007) and marked differences in the market and institutional environment are present (Li *et al.*, 2009; Sheng *et al.*, 2011). There is no nationally enforced labour contract law (Luo, 2007), thus rendering employees as less crucial stakeholders. Neither is the community a key stakeholder: Chinese communities are organised into 'Jie-dao' (a sub-district office equivalent to the British borough), 'Li-long' (literally meaning households in the lanes and alleys) and 'Xiao-qu' (meaning neighbourhood), subunits of the local authorities where the Party leads. These Jie-dao and Li-long are communities that are organised political subunits and sometimes have considerable influences. Internally, this organisational structure is concerned with job creation and stability; externally, its political function reaches the deepest social domain such as organizing residents to carry out regular cultural, entertainment, sports activities and helping people with disabilities find employment. Yet, some literature does argue that the role of the Jie-dao has evolved to focus more on improving resource allocation and urban development (Zhang, 2002) and probably less on influencing the public's behaviour as strongly as before. This can be found especially in economically advantaged Chinese cities where business orientation appears more valued than political orientation.² Overall, however, as communities are highly embedded in the multiple levels of Chinese political governance structures, i.e. state and municipal governments, municipal and district governments, and district and sub-district governments, we would argue that elements relating to Chinese social behaviour are adopted, and consequently adapted after being mediated by these levels of governance structure.

²The author thanks one of the reviewers for his/her insight on the political system of China, particularly relating to the role of Jie-dao which does not have obvious effect on the behaviour of the public at the current stage.

In addition, in China there is effectively no independent 'third sector'. This is an important issue, and Lin (2010, p. 95) clearly explains the relationship between non-governmental organisations (NGOs) in China and the Chinese government as follows: 'NGO[s] [are] still controlled by the governmental authority and NGOs' CSR agenda should play out within the political environment permitted by the government' and 'state-led CSR initiatives in China consequently take on a more influential role than in many other countries worldwide'. In a sense, there is not really a third-sector in China. NGOs work together with the government to provide public goods or services. Elements of CSR, such as philanthropic donations, could be very instrumental to and welcomed by government if they alleviate some of the burden of the government's social duties.

Overall, in line with relational governance perspective (Rindfleisch and Heide, 1997) and institutional perspectives (North 1990), we theorise that foreign retailers adopt a selective CSR agenda that purposefully targets specific stakeholders as preferential parties for exchange of CSR activity. Foreign retailers' CSR divisions, functions and their CSR announcements either online or offline form institutions to support the effective functioning of their retail trading in China. Below, we elaborate on the two specific types of CSR adopted by foreign retailers and offer justifications.

Government-aimed CSR

In the canonical Western holistic CSR stakeholder model, stakeholders are defined as a firm's full repertoire of employees, customers, community and government (Lockett *et al.*, 2006). In China, government-aimed CSR is the first and foremost type of CSR adopted by foreign retailers. Research shows that good relational exchanges with government enhance a firm's performance (Peng and Luo, 2000; Luo and Bhattacharya, 2006). This is because of the crucial institutional environment that surrounds foreign retailers. First, the Chinese government plays a considerable role in regulating and even interfering with national economic activities, regulations and laws (Luo, 2007). For instance, the American government has expressed its concern about the Chinese government's role in foreign businesses in China:

[...] we are troubled when American investors are prohibited from having wholly owned, fully owned subsidiaries of their own company in many sectors in China and excluded from sectors, entirely excluded from competing in other sectors; restrictions that no other major economy in the world imposes on us or anyone else so broadly (Vice President Joseph Biden, Office of the Vice President, The White House, 21 August 2011)

Second, the Chinese government has exclusive control over the management of national resources and industrial regulation. The role of the Chinese government has been suggested to 'still control a significant portion of scarce resources, such as land, bank loans, subsidies, and tax breaks' (Sheng *et al.*, 2011, p. 3). The need for resources for retail expansion is heightened as China has become the world's premiere destination for international retailers, with most of the leading global retail firms operating in China (Kearney, 2010). These government-controlled resources are vital for foreign retailers' deeper penetration into China in further retail development stages rather than the initial market-entry stage. For global retailers, China has now entered a maturing stage that is typically characterised by 'difficulty in securing desirable real estate; consumer spending has expanded significantly; local competition has become more sophisticated' (Global Retail Development Index, AT Kearney). Market saturation in Chinese first-tier cities determines inevitable industry-wide extended competition into second- and third-tier cities for market entry.

Unlike the expansion method of using mergers and acquisitions in first-tier cities, entry into second- and third-tier cities is typically organic (Kearney, 2010). In other words, 'greenfield store' constructions need significant backing from local government on various issues on such as land acquisitions, bank loans, tax breaks etc. The following are some examples from retailers' official strategy statements: 'In China, the Group is aiming for a regular rate of organic growth by opening some 20 hypermarkets per year' (Carrefour Annual Report, 2007); 'New store openings and strong comparable store sales led Wal-Mart China to improve its market position' Wal-Mart Annual Reports, 2008); 'In China, having studied the market carefully and developed our long-term strategy, we have begun to accelerate store and infrastructure development in the economically important and populous coastal provinces'

(Tesco PLC Annual Reports, 2005-2010). Foreign retailers intrinsically and strategically require the government's backing in retail expansions and operation (e.g. food safety etc.) and to gain competitive advantages.

Therefore, foreign retailers purposefully foster a government-aimed CSR agenda. Although foreign retailers, among other multinationals in China, have a history of working with the government, the Ministry of Commerce of the People's Republic of China (PRC) (MOFCOM) declared in 2008 that the authorisation of retail store openings was to be deregulated from central to local authorities. This decentralisation improved local government's appropriation of public investment funds and land allocation in terms of urban development. At the sub-district and neighbourhood level, offices like the Property Owners Association, the Business Owners Association, and property management companies are increasingly instrumental in shaping the community's landscape (Zhang, 2002). Carrefour, for instance, had a tough 1-year business negotiation with Millennium Group, Taiyuan in Shanxi Province *vis-à-vis* a new store opening in the group's Central Plaza but ended up making no progress. Eventually, by approaching and under the mediation of the leader from the 'Xiaodian Qu' (i.e. the Xiaodian neighbourhood committee), where the Central Plaza was located, the contracting process was accelerated and finally signed between the Millennium Group and Carrefour. The success of introducing Carrefour into the neighbourhood was later reported to be the district leader's achievement in contributing to one of the 'Key 22 projects in modernizing the service sector in the area'.³

The local mechanism for resource allocation propels foreign retailers and local government into a tighter relationship. Clearly, retailers' connections with government 'offers shortcuts to these resources' (Sheng *et al.*, 2011, p. 3). Indeed, in an interview with China's prominent news group Xinhua News (Xinhua, WTO-Law, 2002⁴) a 'heavy-weight' public relations manager from one of the top Western retailers, pointedly admitted that 'only when what we foreign retailers promised to government becomes the government's political achievements, will we then have a much more relaxed environment for such as preferential policy treatment'. These 'achievements' objectively satisfy and enhance government, particularly local officials' political careers (Du *et al.*, 2008). For retailers, these successes in relational exchanges with government turn into an institutional advantage in the market place.

On operational terms, global retailers donate cash or products or services in-kind to the Chinese government at proper times (e.g. natural disaster relief, government social projects etc.) for rapport building and fostering a 'reciprocal' relational exchange mechanism. CSR activities that stress the role of government or its associated agencies are categorised as 'government-aimed CSR' (see Table 1).

Therefore, we hypothesise that:

H1: *Global retailers' government-aimed CSR leads to a positive effect on their retail performance in China.*

Consumer-aimed CSR

Another pivotal stakeholder for foreign retailers' CSR model is the Chinese consumer. Consumer-aimed CSR is defined as cash or in-kind products or services donated to Chinese consumers directly without mediation by local government. This type of CSR occurs typically for philanthropic activities e.g. natural disaster relief or community projects for building consumer rapport. At the outset, Chinese consumers have a unique conceptualisation and distinct expectations from their Western counterparts in the developed world. As with the pace of Chinese urbanisation, a larger middle class means growing consumer power (Ho, 2001) and at the same time a stronger sense of Chinese nationalism that should particularly concern global retailers regarding impact on firm performance. We summarise some consumer-aimed CSR examples in Table 2.

In contrast to Ramasamy and Yeung (2008), who maintain that Chinese consumers rely more on the government to regulate the social responsibility of businesses rather than leveraging on their own buying power, the role of retail consumers in China can sometimes be extremely powerful. First, it would seem that Chinese consumers appear to show a universal value, i.e. show no discrimination between domestic and foreign firms regarding their CSR contributions. For instance, according to Darigan and Post (2009), during the relief effort for the Sichuan

³Online source: <http://www.chaoshir68.com/hydt/shownews.asp?newsid=14581>

⁴Online source: <http://www.wtolaw.gov.cn/display/displayInfo.asp?IID=200208221602523293>

Government-aimed CSR	All Carrefour stores in China collectively donated RMB 1 million to Sichuan Youth Development Foundation for building new schools to support primary school pupils who lost school in the Sichuan earthquake (29 August 2008) President of RT-Mart, Yin Yanliang donated 10 million New Taiwanese yuan through the Taiwan–China Charity Foundation ‘Gushan donation’ and also NT 10 million yuan donation to support the disaster areas through the Red Cross Society of Taiwan (14 May 2008) The spokesperson of Taiwan Affairs Office of the State Council Yangyi declared that Trust-Mart (Guangzhou) donated RMB 1 million to the office (Trust-Mart archive)
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Table 1. Examples of global retailers’ government-aimed corporate social responsibility (CSR) announcements (translated by the author from selected global retailers’ CSR web pages in Chinese)

earthquake, China’s largest property developer, Vanke, donated 2 million RMB (about GB£189,000) while Wang-Lao-Ji, a much smaller iced tea manufacturer, donated 100 million RMB. Chinese bloggers called on Vanke to be penalised by asking shareholders to dump Vanke’s stock. This resulted in Vanke’s share valuation dropping from 25 RMB to 19.58 RMB in just 1 day. Chinese consumers vowed to buy Wang-Lao-Ji’s iced tea even though they do not consume that much. Chinese consumers use their buying power, in contrast to Ramasamy and Yeung’s (2008) findings, in a self-initiated way to regulate, or exert a normative pressure on, firms rather than relying on government.

However, this self-initiated consumer force could be even more devastating against foreign firms’ overall business prospects, particularly their financial performance in China, partly because of the emerging Chinese nationalism associated with the growing power of the nation. Irritated Chinese consumers appear to lack cool-headedness, sophistication and balance, and are perhaps somewhat paranoid. Examples include a boycott of the fashion house Dior that Sharon Stone represented after she made unfriendly comments on the Chinese Sichuan earthquake being a result of ‘karma for Tibet’ (FT, 2008).⁵ Similarly, an organised larger-scale boycott in 2008 towards the French retailer Carrefour, as a way to register Chinese public’s displeasure over disruptions of Beijing’s Olympic torch relay in Paris, resulted a sales slump of 20%⁶ (BBC 2008⁷). Chinese consumers’ possible accumulated emotional ‘anti-foreignism’ (Deng, 2008) and grudge-holding arising from perceived foreign and often Western assaults and humiliations is clearly detrimental to any global firm’s Chinese ambitions.

To this end, consumer-aimed CSR will highlight global retailers’ perceived social responsibility, reducing negative perceptions toward world politics and implications for China, and thus possibly enhance customer satisfaction and finally leverage the firm’s performance (Luo and Bhattacharya, 2006). Therefore, we hypothesise that:

H2: *Global retailers’ consumer-aimed CSR leads to a positive effect on their retail performance in China.*

As per our discussions, we integrate our theory into a model (see Figure 1).

Methodology

We define all CSR in the following as only that related to ‘donated cash or in-kind products or services’ (Luo and Bhattacharya, 2006). These are CSR initiatives that can be quantifiable on a monetary basis and are what is

⁵Online source: <http://www.guardian.co.uk/film/2008/may/28/news.chinaearthquake>

⁶Online source: <http://mnc.people.com.cn/GB/7172977.html>

⁷Online source: <http://news.bbc.co.uk/1/hi/world/asia-pacific/7347918.stm>

Consumer-aimed CSR	Tesco donated 20,000 pounds to victims in Guangzhou who were affected by the disasters caused by the rare heavy snow (4 February 2008)
	Carrefour Chengdu stores provided a first batch of relief supplies equivalent to RMB 220,000 worth of relief supplies including 8 trucks of bottled water, food, rain gear, flashlights, blankets and other urgently needed relief items to affected areas of the disaster relief centre in Dujiangyan
	On the Children's Day, Ito Yokado donated a total value of RMB 100,000 worth school children's clothing, school supplies, and RMB 50,000 fund to Pui-Chi Centre in Xicheng District, Beijing (Ito Yokado, 1 June 2007)

Table 2. Examples of global retailers' consumer-aimed corporate social responsibility (CSR) statements from their CSR Web pages (translated from Chinese by the author)

Note: Despite both types of CSR being calculated in monetary value, government-aimed CSR and consumer-aimed CSR are qualitatively different by definition and quantitatively different in volume (see Table 3, mean scores and standard deviations).

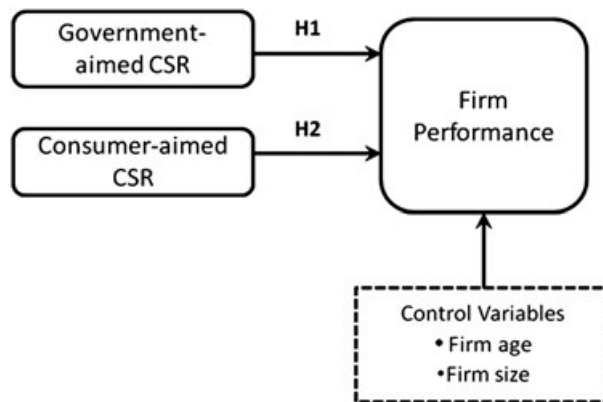


Figure 1. Hypothesis model

announced by global retailers explicitly on their CSR webpages or CSR reports. This is an objective measure for CSR. Internet-based CSR reports are increasingly adopted by firms and are becoming an important source for researchers studying sustainability issues systematically (Morhardt, 2010). It allows for easier data collection, and the disaggregation of CSR measures to different types would provide managerially actionable guidance for retail managers.

The data used involve four stage of data collection. First, it was necessary to identify for this study the target global retailers operating in China. A list of member retailers in China was downloaded from the China Chain Store and Franchise Association's (CCFA) freely accessible online database. This database is commonly used when quantitative researchers draw samples of foreign retailers in China for their studies (e.g. Kolk *et al.*, 2010; Sternquist *et al.*, 2010). Specifically, from its series reports on 'Top 100 retailers in China', according to ownership structure, 19 foreign retailers were selected. Two foreign fast-food restaurants (i.e. McDonald and Yum) were removed for their low relevance to the intended focus on retailers. This resulted in 17 foreign retailers (and head office locations) as follows (in order of sales from largest to smallest in 2008): Carrefour (France), RT-Mart (Taiwan), Wal-Mart (US), Trust-Mart (Taiwan), New World Department Store (NWDS) (Hong Kong), Tesco (UK), Lotus (Thailand), Metro (Germany), Parkson (Malaysia), Auchan (France), B&Q (UK), Aeon (Japan), PARKnSHOP (Hong Kong), e-Mart (South Korea), ItoYokado (Japan), IKEA (Sweden) and Home Depot (USA).

The second stage of data collection involved web content analyses of the 17 foreign retailers' dedicated CSR websites or CSR reports from the corporate official websites in China. Prior CSR research typically measured CSR by a single composite score (i.e. a unidimensional construct). However, it is expected that the disaggregation of the CSR measure to some possible different types would allow for more fine-grained CSR theory development

and provide managerially actionable guidance to retail managers. Thus, unlike a subjective unidimensional CSR score used in previous CSR research (Luo and Bhattacharya, 2006; Cheung *et al.*, 2010; Yan *et al.*, 2010), this study adopts an objective measurement of CSR, for two reasons. First, despite the warning about firm's possible over-reporting of their CSR using objective measures in their web announcements, web-based CSR announcement is comparatively more transparent and easier for the public to access and monitor. In China, consumer self-organised third-party blogs are increasingly validating foreign firm's actual fulfilment of their CSR against their donation commitments. Several high-profile foreign firms have been forced to top-up donation fees as they received consumer-organised boycotts as a result of dishonest and exaggerated CSR claims. In this sense, foreign firms in China are vigilant in reporting their CSR donations on their websites. Second, unlike developed economies where there are high-quality secondary CSR data sources (e.g. Fortune America's Most Admired Corporations), a deficiency of high-quality data is a problem in research in China (Cooke, 2008). Considering the focus of this study is only on global retailers, a purposefully built CSR dataset is actionable for this small set of retailers.

Following the methods recommended by Lee *et al.* (2009) in their content analysis of the top 100 US retailers, the criteria for categorising CSR are simple and straightforward. Primary data collection is also straightforward in nature by content analysis following the set criteria. As a bilingual researcher (Chinese–English), the author conducted content analysis, coding, and tracking between proposed theory of 224 web pages for the 17 selected foreign retailers. CSR scores were collected in monetary terms (i.e. in Chinese RMB). The single-rater method is advocated particularly for studying social processes when the criteria are simple and research resources are limited (Humphreys, 2010).

The third stage was to collect firm performance indicators for the 17 global retailers retrieved from CCFA's series of publicly accessible PDF reports on 'Top 100 retailers in China' from 2001 to 2009. There are four measures: store number, store growth rate, sales volume and sales growth rate. In line with the guidance from Diamantopoulos and Winklhofer (2001), we note that the four measures for retail firms' performance do not necessarily co-vary (e.g. firms that expand store numbers may not simultaneously achieve sales growth in a short time); we therefore use formative measures for firm performance using store number, store growth rate, sales volume and sales growth rate as four indicators. These four measures were readily available from the CCFA reports. The performance measures were matched to the 93 firm-year observations in which global retailers announced government-aimed and consumer-aimed CSR.

Fourth, two control variables were considered: firm size and firm age. According to recommendations of Sheng *et al.* (2011), the age of retail firms was measured by the number of years the firm has been in operation in China. Firm size is measured by the natural logarithm of the number of employees of the firm to prevent skewness. Retail firm age were collected from retailers' official websites in China.

Altogether 93 firm-year observations from 2001–2009 were collected, matched and compiled. Missing data occurred in seven cases when retailers only reported either just the government-aimed CSR or the consumer-aimed CSR. Missing data analysis in PASW statistics 18 (formerly SPSS) was conducted and no significant differences on the dependent variable (i.e. firm performance) were found. Reporting only one type of CSR is perhaps a signal of inactive CSR. Thus, these missing data were replaced by 'mean of nearby points' rather than 'average mean' to minimize the possible inflated scores from CSR active retailers.

Partial Least Squares (PLS) Structural Modelling

PLS was employed in this study in preference to other structural models (e.g. structural equation modelling) because its advantages fitted this research best. First, in defining government-aimed CSR and consumer-aimed CSR, single-item formative constructs are used. This is because the direction of causality is from measure (i.e. cash donation or quantifiable product or service donations to government or consumers) to construct (i.e. government-aimed CSR and consumer-aimed CSR). In addition, as the nature of this study is to explore government-aimed CSR and consumer-aimed CSR at the current stage in China, the scale scores may not fully and adequately represent the construct. It is admitted that the measures are not deemed to be exhaustive or complete. It is possible that other forms of CSR will emerge in the future. These two qualities satisfy the conditions of using formative measures as

	M	SD	1	2	3	4	5
1. Firm Performance	—	—	n.a.				
2. Consumer-aimed CSR	14.76	45.53	0.20	n.a.			
3. Government-aimed CSR	97.67	297.89	0.34*	0.51**	n.a.		
4. Firm age	12.01	5.24	0.01	−0.10	−0.02	1.00	
5. Firm size	4.95	0.68	0.36**	0.29**	0.28**	−0.45**	1.00

Table 3. Descriptive statistics

CSR, corporate social responsibility; M, mean; SD, standard deviation; the square root of the AVE (average variance extracted) is on the diagonal; n.a., not applicable.

** $P < 0.01$ (two-tailed);

* $P < 0.05$ (two-tailed).

suggested by Jarvis *et al.* (2003). Overall, the use of operationally defined constructs in structural modelling is most frequently applied in marketing (Bagozzi, 1984).

Analyses

SmartPLS 2.0 M3 (Ringle *et al.*, 2005) was used to conduct the PLS statistical analysis. Reliability for this PLS study was assessed by means of composite scale reliability (CR) (Fornell and Larcker, 1981; Chin, 1998) and average variance extracted (AVE) (Fornell and Larcker, 1981; Chin 1998). Government-aimed CSR and consumer-aimed CSR were measured by a single formative measure, so their CR and AVE were not reported by PLS. In addition, convergent validity was measured by inspecting the standardised loadings of the measures on their respective constructs (Chin, 1998). Next, the discriminant validity of the measures was assessed. This follows the rule that a construct should always share more variance with its measures than with other model constructs (Chin, 1998), the square root of the AVE should be larger than the intercorrelations of the constructs with the other model constructs (Fornell and Larcker, 1981). The theta matrix (Θ) was also examined, and it was confirmed that no item cross-loads more highly on another construct than on its associated constructs (Chin, 1998). We report the descriptive statistics in Table 3.

Hypothesis Testing

The structural model and hypotheses were tested computing path coefficients.⁸ A bootstrapping technique using 500 subsamples were performed as recommended by Chin (1998). Specifically, *t*-values and the significance of the structural coefficients were computed for each path. In PLS, a model's fit is assessed by: (i) the coefficient significance of each path, and (ii) the variance explained (R^2) in the endogenous fact. Details are reported in Table 4.

Findings and Discussion

H1 proposes a positive association between retailers' government-aimed CSR and their retail performance in China. This path is significant at the $P < 0.05$ level and shows a strong effect ($\gamma = 0.244$); therefore, H1 is supported. By contrast, H2 which suggests that consumer-aimed CSR will also have a positive and direct impact on retailers' performance in China, turns out to be insignificant and even shows some negative direction ($\gamma = -0.014$, n.s.). For control variables, firm age shows no significant effects on firm performance. In contrast, firm size positively

⁸We used subscripts gamma (γ) to signify the causal relationships between two exogenous latent variables (i.e. consumer-aimed CSR and government-aimed CSR) and an endogenous latent variable (i.e. firm performance).

Hypothesis	Relationship	Direction	Standardised coefficient (β)	t-statistics (bootstrap)	Result
H1	Government-aimed CSR \rightarrow Firm performance	Positive	0.244 [*]	1.97	Supported
H2	Consumer-aimed CSR \rightarrow Firm performance	Positive	-0.014 (n.s.)	0.08	Not supported
Control variables	Firm age \rightarrow Firm performance		0.184	1.34	
	Firm size \rightarrow Firm performance		0.383 ^{**}	2.71	
Fit measures	Endogenous construct	Model			
R ²	Firm performance	0.22			

Table 4. Hypothesis testing

CSR, corporate social responsibility.

^{**} $P < 0.01$ (two-tailed);

^{*} $P < 0.05$ (two-tailed) (based on $t(499)$, two-tailed test); n.s., not significant.

affects firm performance, suggesting that large firms are more likely to devote effort to CSR. This finding is consistent with prior findings from (Orlitzky, 2001). Finally, the R^2 value of the key endogenous construct of retail performance is 0.22, which indicates that the model explains a fair amount of variance for retail performance. Given the R^2 of the endogenous factor, together with the statistical significance of one of the two γ coefficients, it is thus concluded that the PLS model fits the data well.

Implications and Conclusions

In addressing the paucity of CSR literature from the perspective of developing countries, and particularly to shed light on the role of a developing country's government in shaping the CSR agenda, this study draws on relational governance and institutional theory and proposes and empirically tests two unique types of retailers' CSR in China: government-aimed CSR and consumer-aimed CSR. We find that under the unique and changing Chinese economic, social and legal institutions, together with the dual pressures arising from the urgency of retail expansion to seize the market potential and the expected role of using CSR to contribute to the overall welfare of Chinese society, foreign retailers have abandoned the mainstream canonical Western CSR stakeholder model, where interests of employee, community, government and customers must be addressed as a whole. Rather, foreign retailers adopt a preferential stakeholder model using an actor-specific CSR strategy, namely, only the government-aimed CSR and consumer-aimed CSR, to drive their firm's performance in China. Data from 17 leading global retailers for 2001–2009 show that foreign retailers' government-aimed CSR has a direct and positive effect on their firm's performance in China. We therefore have reason to believe that CSR is perhaps used as a legitimisation tool and a discretionary means for engaging in the political process to interact, communicate and exchange with key legitimacy actors, i.e. the Chinese government, as a way to enhance firm performance.

In contrast, our hypothesised relationship of consumer-aimed CSR has not proved to have any effects on firm performance in this study. There could be several reasons for this. First, for global retailers, the effects of consumer-aimed CSR may be asymmetrical – where doing good does not enhance performance greatly but doing bad may immediately jeopardise performance. In other words, consumer-aimed CSR may serve more as signal of a firm's goodwill, principally to soothe or appease Chinese consumers' easily escalated negativity (i.e. boycotts), or at most a rapport-building gesture rather than an intended strategy for inviting higher consumer spending. For instance, ItoYokado is a Japanese retailer in China, and overall the Chinese have a low regard for Japanese firms for reasons of historical animosity and mutually hostile popular nationalism (Deng, 2008). One of its Beijing stores, however, offered a free milk delivery service for a disabled elderly lady which was widely acclaimed among shoppers. This non-monetary effort created very positive word-of-mouth and enhanced ItoYokado's reputation (China

Business Herald News Weekly, 2008⁹). Although there is no evidence for such CSR leading to a huge financial reward, consumer-aimed CSR for this Japanese retailer had a positive effect on its retail trading environment that otherwise may not have been the case.

Second, strategically, it is possible that government support for retail expansions such as land use and resources is more fundamental to foreign retailers' overall business performance than consumer patronage in shopping as a way of rewarding firms' good citizen behaviour. Retailing is arguably about scale and market reach, thus for a one unit of CSR donation, the returns from government backing of store expansion could be far greater than the returns from increased patronage by individual consumers of a certain store.

Overall, given the current climate of retail expansion in China, time limitations drive foreign retailers to actively transform their CSR duties to comply with the government CSR agenda by way of a purposive CSR construction. Tellingly, they take CSR as an effective tool to socially construct a conducive environment for their further reach into the Chinese market. For CSR managers and consultants, results from this study suggest that under the current business climate (economic, social and legal institutions) in China, only global retailers' government-aimed CSR strongly contributes to retail performance, whilst consumer-aimed CSR does not give a financial advantage. Yet our conclusion is subject to revision when Chinese consumers become more sophisticated in the future – they can become more objective, long-term and evaluate foreign firms' CSR from a global citizenship perspective rather than from a narrow divide of home versus foreign. Strategically, firms should not immediately abandon their consumer-aimed CSR just because it generate less financial return at this stage, but must keep exchanging CSR activities with consumers for non-financial benefits that have the potential transform to financial returns in the future.

Limitations and Future Research

As this study is explorative by nature it suffers from several shortcomings. First, a small sample of global retailers may not be representative of all foreign retailers in China. However, this is compensated by drawing from the lists published by CCFA (top 100 retailers in China). In a sense, the selected samples for this study represent high-performing global retailers. Second, this research explores what constitutes government-aimed and consumer-aimed CSR by using a single formative construct. This construct only captures quantifiable CSR donations in the form of cash donations of products/services by retailers. Arguably, some other means of CSR donation that are not calculated on a monetary basis can still contribute greatly to the welfare of society (e.g. free training services for suppliers on food safety etc.), and are probably significant. Thus, more fine-grained quantitative research could be carried out in optimising the measurement of the two proposed types of CSR. It should also be noted that some portions of government-aimed CSR may be reallocated and redistributed by government into the consumer domain on retailers' behalf. In addition, as public interest has become divided in China in recent years, a code of ethics is becoming a relative, comparative and qualitative measure rather than purely a subjective, absolute and quantitative one. Consumer-aimed CSR could be used to manage Chinese consumers' emotional and behavioural negativity on a contingent basis. Equally, it is possible that there is an asymmetrical impact of consumer-aimed CSR on performance that may need further empirical investigation. Lastly, this study critically assessed the contextual nature of CSR in the Introduction, and this study is no exception to that. It is restricted to a particular developing Chinese context, and therefore, findings on retailers' CSR on the basis of the proposed typology and effects should not be applied to other contexts without prudent examination of their applicability.

To conclude, this research contributes to our knowledge of CSR outside the American and European context: in an emerging country like China, CSR is not modelled after the canonical Western paradigm that address the needs of the total stakeholder body. Foreign retailers' perceived societal and stakeholder obligations (Brown and Dacin, 1997) have been adapted according to the specific Chinese contexts, their CSR, therefore, has been utilised in the form of a preferential stakeholder model using an actor-specific CSR strategy for a marked financial return. Government-aimed CSR plays a predominant role in driving the performance of foreign retail firms in China. This finding addresses a prior literature gap concerning knowledge of CSR from a developing agenda and the role of

⁹Online source: http://www.cb-h.com/2008/shshshow.asp?n_id=3840

government in shaping CSR (Idemudia, 2011). In the CSR literature, the prior Western-defined CSR model ignored the country contingency and there have been no extensive empirical examinations of effects of CSR on? firm performance.

As global multinational firms (retailers included) are gaining momentum in their expansion into emerging economies like China, countries which often have unique markets and institutional mechanism and distinctive social concerns and priorities, the understanding of firms' strategies and behaviours in shaping the landscape of international markets and the welfare of overseas consumers is imperative for optimising their business strategies to suit the environment surrounding them.

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