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## The Top-Down Model: A Discussion of Corporate Social Responsibility Policy in China

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Corporate Social Responsibility (CSR) has gained significant prominence in China in the period after the reforms and opening-up of the Chinese economy which ushered in the separation of corporate management and state administration as well as the integration of the Chinese economy with the global economy. Since then, the Chinese government and citizens have realized the need to hold enterprises responsible for the effects of their activities on society; and hence began to formulate CSR policies, and to integrate relevant laws, incentives, supervision and control mechanisms in corporate regulations. In 2001, China's accession to the WTO provided a platform for international reference and exchanges for the development of CSR policies. In 2006, CSR was recognized by the country's highest authority in legal form for the first time, which also meant that CSR became a national economic development strategy and policy. Unlike the private sector-led CSR in Europe and North America, this study shows that CSR in China is mainly a government-guided phenomenon and more popular among state-owned enterprises (SOE). In this light, we opine that the improvement of CSR policy and practice in China requires reforms designed with special consideration of the unique characteristics of the Chinese society to encourage stakeholder involvement in the policy formulation and participation in the implementation process.

**Key words:** China, CSR Policy, Corporate Social Responsibility, Top-Down Model

### 1. INTRODUCTION

CSR encompasses the society's economic, legal, ethical and charitable expectations of the enterprise at a given point in time. This means that the content of CSR is multi-level: economic responsibility, legal responsibility, moral responsibility and charity responsibility. This conception of CSR is often referred to as the pyramid model of CSR. That

is, the enterprise is required to be profitable, to obey the law, to be ethical, and to be a good corporate citizen<sup>1</sup>. In China, CSR means that while enterprises make profits and assume legal responsibilities to shareholders and employees, they must also assume responsibilities to consumers, communities, and the environment. CSR requires enterprises to go beyond the traditional conception of profit as the only goal, to emphasize the concern for human value in the production process, and to emphasize the contribution to the environment, consumers, and society. From this point of view, the connotation of CSR is very rich, and the stakeholders of CSR are also diverse, which can be specifically reflected in the following aspects: (a) the responsibility to shareholders; (b) the responsibility to employees; (c) the responsibility to creditors; (d) the responsibility to consumers; (e) the responsibility to the state and the government; (f) the responsibility for sustainable development of resources, environment and society; (g) the responsibility for charity and social welfare. In other words, CSR is the responsibility of the enterprise to all stakeholders<sup>2</sup>.

The adoption of the Chinese Company Law in 2006 marked the first time that China recognized CSR in the form of high-level laws. Article 5 of the Company Law stipulates that when the enterprise engages in business activities, it must abide by laws and administrative regulations, abide by social ethics, business ethics, honesty and trustworthiness, accept the supervision of the government and the public, and assume social responsibility. However, it is worth noting that this is a principled regulation, and legal principles are different from legal rules, although the upper concept of the two is legal norms<sup>3</sup>. Although Chinese national laws recognize CSR, the implementation of CSR in China still faces many uncertainties. This is because, CSR regulations in

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<sup>1</sup> Carroll AB, 'The pyramid of corporate social responsibility: Toward the moral management of organizational stakeholders' (1991)4 *Business horizons* 39-48.

<sup>2</sup> Wood DJ, 'Corporate social performance revisited' (1991) *Academy of management review* 691-718.

<sup>3</sup> Liu, Y.S, 'Legal Rules and Legal Principles: The Difference in Quality?' 2009(5), *Jurist* 120-133.

China are mostly not backed by executive powers, and the realization of CSR is difficult due to the adjustment of morality and public opinion<sup>4</sup>. The corporate reforms and the opening-up of the Chinese economy promoted economic and social transformation, and facilitated the transformation of government functions. China is currently in an important transitional period of economic and government responsibilities where relatively few enterprises voluntarily abide by CSR disclosure laws and regulations. The government continues to improve laws and regulations, formulate industry standards, strengthen market supervision, and provide public products and services, while promoting the development of CSR. Thus, the Chinese government assumes more responsibilities relative to the private sector in the socio-economic development of the country. In other words, the implementation of CSR in China follows a top-to-down model (Tang, 2015)<sup>5</sup>. Graafland and Zhang (2014)<sup>6</sup> in a survey of 109 Chinese companies, reported that the implementation of CSR in China is mainly driven by government laws and regulations unlike the private-sector led CSR regime in Europe and North America. According to the authors, Chinese companies make a great deal of effort to improve the economic aspects of CSR, such as enhancing competitiveness, processes and product innovation; but only a small number of the businesses set measureable objectives, track progress and report on the social and environmental dimensions of CSR.

Previous studies on CSR regulations in China have failed to make a clear differentiation between mandatory and voluntary CSR guidelines, and hence a clear appreciation of mandatory CSR regulations and what is purely voluntary is

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<sup>4</sup> Chen Y J, 'On the Relationship between Corporate Power and Corporate Social Responsibility' 2018(1) Seeking Truth 96-104.

<sup>5</sup> Tang X M, 'Development and Practice of Corporate Social Responsibility' (2015) Chengdu: South-Western University of Financial and Economics Press 5-12.

<sup>6</sup> Graafland J, and Zhang L, 'Corporate social responsibility in China: implementation and challenges.' (2014)23 Business Ethics: A European Review. 34-49.

lacking in the Chinese literature on CSR (see <sup>7&8</sup>). This article first reviews different legal provisions in China to explain the social responsibilities (mandatory and voluntary) of corporations to different classes of stakeholders. Then, the policies are summarized according to different levels to show the top-down model of China's CSR policy. The rest of the article is organized as follows: section two (2) presents a detailed discussion of the CSR laws and regulations bordering investors (shareholders), employees, creditors, consumers, the environment and charity respectively. Section three (3) discusses CSR policies at the level of central government, local government and self-regulatory organizations. Section four (4) analyzes the development trend of China's top-down CSR policy. Section five (5) makes the conclusion and provides some policy recommendations.

## 2. CHINA'S CSR POLICY FOR STAKEHOLDERS

### 2.1 The responsibility to the investor

Under the conditions of the market economy, the relationship between enterprises and shareholders is actually the relationship between enterprises and investors. As investment has become the norm and the scope of the securities market has expanded, more citizens who do not have professional investment skills have entered this field based on purely speculative thinking or trust in the corporate public documents. Therefore, while raising large amounts of capital for the enterprise, the interests of investors with minority stakes also need to be paid attention to<sup>9</sup>. For

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<sup>7</sup> Situ H, Tilt C, and Seet P, 'Corporate environmental reporting (CER) in China: a stakeholder perspective In Australasian' (Centre on Social and Environmental Accounting Research Conference 13 Nov 2015)

<sup>8</sup> Wang X, Cao F, and Ye K, 'Mandatory corporate social responsibility (CSR) reporting and financial reporting quality: Evidence from a quasi-natural experiment' (2018) 154 *Journal of Business Ethics*. 253-74.

<sup>9</sup> Zheng, Y, 'The Protection of the Interests of Small and Medium Shareholders'(2010) 8 *Business Research* 28-29.

enterprises, CSR implies adjusting short-term and long-term strategies in order to adapt to changes in the external environment, and to gradually reduce the conflict between corporate behavior and social ethics by adjusting corporate culture, value orientation and business strategy. In this process, the government assumes the responsibility for its regulation and guidance, and through a sound legal system and effective incentive measures to maximize the consistency of corporate interests and social responsibility<sup>10</sup>.

In view of the essential characteristics of investors using their feet to vote, the law protects investors more in terms of corporate information disclosure. In 2007, the China Securities Regulatory Commission formulated the Administrative Measures for Information Disclosure of Listed Companies in order to regulate corporate information disclosure, strengthen management of information disclosure affairs, and protect the legitimate rights and interests of investors. This law mandates enterprises to disclose information truthfully, accurately, completely and in a timely manner, without false records, misleading statements or major omissions, and should disclose information to all investors at the same time. The directors, supervisors, and senior managers of the enterprise have the mandate to perform their duties faithfully and diligently, and ensure that the information disclosed is true, accurate, complete, timely and fair. In this case, the China Securities Regulatory Commission supervises the information disclosure documents and announcements, and information disclosure affairs management activities in accordance with the law, and supervises the behavior of the controlling shareholders. The Stock Exchange supervises the disclosure of information by listed enterprises and other information disclosure obligors and urges them to disclose information in a timely and accurate manner in accordance with the law and implement real-time monitoring of securities and derivatives transactions. The listing rules and information disclosure rules formulated by the stock exchange are subject to the approval of the China Securities Regulatory Commission.

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<sup>10</sup> Shi J.C and Xiao Z 'Study on Corporate Social Responsibility: Legal Duty, Moral Responsibility and the Others'(2007) Beijing Forum 595-611.

## **2.2 The responsibility to the employee**

In order to protect the legitimate rights and interests of workers, adjust labor relations, establish and maintain a labor system adapted to the socialist market economy, and promote economic development and social progress, the Labor Law of the People's Republic of China was promulgated in 1994. The Labor Contract Law of the People's Republic of China was formulated in 2007 to improve the labor contract system, clarify the rights and obligations of parties to the labor contract, and to build and develop harmonious and stable labor relations between corporations and their employees. The trade union helps and guides workers and employers to conclude and perform labor contracts in accordance with the law and establish a collective negotiation mechanism with employers to protect the legitimate rights and interests of workers. The labor administrative department of the government at or above the county level, in conjunction with representatives of labor unions and enterprises, establishes a sound tripartite mechanism for coordinating labor relations, and jointly studies and resolves major labor relations issues.

In 2008, the Ministry of Human Resources and Social Security of the People's Republic of China, the China Enterprise Confederation, and the All-China Federation of Trade Union jointly issued the Notice on further Promotion of Rainbow Plan to implement Collective Contract System. It is worth noting that the collective negotiation and collective contract system is an important legal system for adjusting labor relations under the conditions of the socialist market economy. Strengthening the collective consultation and collective contract systems help to improve the working conditions of employees and to ensure that they have a fair share of the fruits of economic development. Collective bargaining also helps enterprises and employees to address disagreements amicably, and to promote enterprise development, safeguard the rights and interests of employees, and the building and developing of a harmonious and stable labor relations. In this case, in accordance with the arrangements of the government mediation tripartite labor relations meetings, the implementation of the Rainbow Plan, together with the collective contract system, takes the lead in

clarifying the results, and indirectly promotes CSR towards employees.

### 2.3 The responsibility to the creditor

In the production and operation activities of the enterprise, the creditor provides support in the form of debt finance or credit sales to the enterprise and bears a part of the enterprise's operation and financial risks. The creditor has the right to recover the remaining assets of the enterprise after its insolvency. Therefore, creditors are concerned about the solvency of enterprises, and enterprises should provide creditors with information such as guarantees for the security of loans. To some extent, the enterprise and the creditor are the counterparties of the transaction, and both participate in the transaction as rational economic entities, and each must give priority to their own interests. In the Chinese Company Law, the systems of corporate capital and profit distribution, corporate mergers and divisions, corporate dissolution and liquidation all reflect the care for creditors. In particular, the lifting of the veil system directly penetrates the transaction relationship between the enterprise and its creditors. However, in the case of abnormal operation of the enterprise, when the enterprise has gone bankrupt and entered liquidation or is on the verge of bankruptcy, the enterprise becomes insolvent or cannot pay, and the creditors are the first to suffer (Shi, 2019)<sup>11</sup>.

In 2010, The Supreme People's Court in China promulgated the opinions on several issues concerning the Correct Trial of Enterprise Bankruptcy Cases and Provision of Judicial Guarantee for Maintaining the Order of the Market Economy. It is believed that it is necessary to correctly understand the role of the Bankruptcy Law to guarantee the fair and orderly payment of creditors, improve the competition mechanism of the survival of the fittest, optimize the allocation of social resources, adjust the social industrial structure, and rescue enterprises in distress. In the trial of enterprise bankruptcy cases, the people's courts must fully mobilize the enthusiasm of the administrators and urge

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<sup>11</sup> Shi, T, 'How Can CSR Be Implemented? -- The Ideal and Reality of Article 5 of the Company Law' (2019)5 *Tsinghua Law Science* 57-79.



them to use legal means to search for and recover debtor's property and protect the interests of creditors to the maximum. Even in the bankruptcy reorganization and reconciliation process whose main purpose is to save the debtor, it is still necessary to fully protect the interests of creditors. The approval of the reorganization plan and the settlement agreement is to be determined in strict accordance with legal procedures to determine voting rights and vote in accordance with the law.

#### **2.4 The responsibility to the consumer**

The responsibility of enterprises to consumers can be expressed in the safety and reliability of products and services, fair treatment of consumers, proper handling of consumer complaints and compensation, as well as after-sales service, etc. (Shi, 2014)<sup>12</sup>. In order to encourage enterprises to effectively protect the interests of consumers, consciously assume CSR, and combine the status quo of consumer rights protection, the China Consumers Association issued the Guidelines for Social Responsibility of Good Enterprises in 2007. The guidelines call on enterprises to earnestly fulfill legal obligations as operators, earnestly safeguard the legitimate rights and interests of consumers, take the initiative to assume CSR, consciously accept social supervision, and strive to achieve the following:

- (a) operate honestly and faithfully in accordance with the law;
- (b) information disclosure should be true and sufficient;
- (c) the price of goods or services should be clearly stated;
- (d) the sales contract should be regulated under the condition of fair competition;
- (e) the product should be reliable and safe to use;

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<sup>12</sup> Shi, J, 'The Effects of Corporate Social Responsibility on Purchase Intention of Consumers' 2014(4) *Modern Management* 29-38.

- (f) the after-sales service of the goods should be convenient and quick;
- (g) the resolution of disputes between enterprises and consumers should be timely and fair;
- (h) enterprises should respect the personality of consumers and protect their privacy;
- (i) consumer education should be carried out to guide consumption;
- (j) environmental protection, energy conservation and sustainable development of society should be advocated.

As a result, new and greater achievements can be made for creating a harmonious consumption environment and building a socialist harmonious society. In this case, the transactions between enterprises and consumers follow the principles of voluntariness, equality, fairness, and honesty. The content of the corporate products or services should be in line with scientific facts, and must not exaggerate the function and effectiveness, nor make misleading false propaganda. In equal transactions between enterprises and consumers, enterprises are expected to make legitimate profits and not harm consumers' interests with monopoly or superior positions. When there is a conflict between the enterprise and the consumer, the enterprise must carefully listen to the opinions of the consumers and accept the reasonable suggestions of the consumers. When necessary, enterprises must take the initiative to assume responsibility for guarantees, resolve consumer disputes fairly, and meet the reasonable requirements of consumers.

## **2.5 The responsibility to the environment**

As an important part of CSR, corporate environmental responsibility has gradually attracted attention with the emergence of CSR. Although China has made remarkable achievements in enhancing CSR regulations since the Reform and Opening-Up in the last four decades, it has not done enough in environmental protection. In 2006, the Fifth Plenary Session of the Sixteenth Central Committee of the Communist Party of China clearly proposed to build a resource-saving and environment-friendly society. The envisaged environment-friendly society is a social form in

which man and nature coexist harmoniously, and its core connotation is the coordinated and sustainable development of human production and consumption activities and the natural ecosystem. In 2011, the Twelfth Five-Year (2011-2015) Planning Outline of the National Economic and Social Development of the People's Republic of China pointed out that environmental supervision should be strengthened.

The government has stepped up environmental law enforcement, implemented strict environmental protection access, carried out environmental impact assessments in accordance with the law, and strengthened environmental supervision of industrial transfer. Moreover, the government strictly implements the environmental protection target responsibility system, strengthens the assessment of total volume control indicators, improves the accountability system for major environmental incidents and pollution accidents, and establishes an environmental protection social supervision mechanism. The Thirteenth Five-Year (2016-2020) Planning Outline for the National Economic and Social Development of the People's Republic of China states that the improvement of environmental quality would be at the core of national development and the focus should be on solving outstanding problems in the ecological environment.

The state seeks to increase ecological environmental protection, improve resource utilization efficiency, provide the people with more high-quality ecological products, and coordinate to promote the prosperity of the people, the prosperity of the country, and the beauty of China as a whole. The government is improving the pollutant discharge standard system, strengthening the supervisory monitoring of industrial pollution sources, publishing the list of enterprises that have not met the standards, and implementing rectification within a time limit. Under the plan, the government has instructed local governments to undertake regular environmental inspections, and establish an environmental quality evaluation mechanism for local government area. In this process, the environmental protection plans and regulations formulated by the government have had a considerable impact on the operation of enterprises, especially for enterprises whose environmental protection concepts and awareness need to be strengthened.

## 2.6 The responsibility to charity

Since the scope of CSR is not clearly defined, people often confuse CSR with charity. In fact, charity and CSR are not the same thing, and at best it can only be used as a dimension to measure the degree of CSR (Carroll, 1991). This is obviously a lack of understanding of the CSR system, connotation, and practical methods, which affects the atmosphere for enterprises to practice social responsibility. Peter Drucker, the father of modern management, believes that if the solution to social problems is to hurt the profitability of the enterprise, or if it exceeds the scope of the corporate ability, and interferes with the normal operation of the enterprise, it is not correct performance of responsibility (Drucker, 2004)<sup>13</sup>. Since the 20th century, philanthropy has shown a trend of organization and professionalism, and charitable organizations represented by foundations have become a symbol of modern philanthropy. The emergence of charitable organizations such as foundations is the result of government policies. The taxation system formulated and continuously improved by the government, such as income tax, inheritance tax and other legal systems, restrained the polarization between the rich and the poor (Chi, 2020)<sup>14</sup>.

In this process, the Chinese government provides a powerful impetus to its development. In 2014, the State Council of the People's Republic of China issued the Guiding Opinions on Promoting the Healthy Development of Charity. The guidance mentioned that the government implements the pre-tax deduction policy for corporate public welfare donations, and that the public welfare donation expenditures incurred by enterprises are allowed to be deducted when calculating taxable income within 12% of the total annual profit. Later, in order to develop charity, promote charity culture, regulate charity activities, protect

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<sup>13</sup> Drucker PF, 'What Makes an Effective Executive' (Harvard Business Review Press 3 Jan 2017)

<sup>14</sup> Chi, S.Y, 'Correctly Understand and Handle the Relationship between Government and Charity' (China Social News, 13 February 2020) <<http://www.mca.gov.cn/article/xw/mtbd/202002/20200200024424.shtml>> assessed 9 February 2021

the legitimate rights and interests of charity organizations, donors, volunteers, beneficiaries and other charity event participants, promote social progress, and share development achievements, the first Charity Law of the People's Republic of China was promulgated in 2016. To carry out charitable activities, enterprises are expected to follow the principles of lawfulness, voluntariness, integrity, and non-profits, and must not violate social morality, endanger national security, or harm the public interest of society and the legitimate rights and interests of others. If the enterprise donates its own products, it bears product quality responsibilities and obligations in accordance with the law.

### **3. CHINA'S CSR POLICY FROM TOP TO DOWN**

Even though CSR laws and regulations in China started relatively late, they have been the main driving force for CSR implementation in China as corporations are not so motivated to voluntarily perform CSR particularly activities that relate to the pursuit of environmental and social goals. In the process of promoting the development of CSR, the Chinese government has started by adjusting its own role, drawing on domestic and foreign experience, and formulating policies with stakeholders based on evaluability and ethical principles. The promotion of CSR in China has similar characteristics to the top-down model of Chinese decision-making, but the behavior of the central government, local governments and self-regulatory organizations are slightly different.

#### **3.1 CSR policy at the central level**

In 1994, the Company Law of the People's Republic of China fundamentally established the status of an enterprise as a legal person. Thus, establishing its main position in fulfilling CSR. China's CSR policy begins with the protection of employees. In 1992, the Trade Union Law passed by the National People's Congress and the labor law passed by the Standing Committee of the National People's Congress in 1994 began to promote the activities of enterprises to protect the rights and interests of employees.

Moreover, as the laws promulgated by the country's highest authority, the trade union law and labor law had the highest legal effect at that time. In 2002, at the Sixteenth National Congress of the Communist Party of China, the country put forward a people-oriented, comprehensive, balanced and sustainable scientific development concept. In 2006, the Sixth Plenary Session of the Sixteenth Central Committee of the Communist Party of China clearly pointed out in the approved decision on several important issues of the Socialist Harmonious Society Committee. In this case, the Labor Law of the People's Republic of China, the Trade Union Law of the People's Republic of China, the Consumer Rights Protection Law of the People's Republic of China, the Charity Law of the People's Republic of China, and the Environmental Protection Law of the People's Republic of China as the most effective legal norm in China except the Constitution, has become the preliminary legal basis and bottom line for enterprises to fulfill their CSR.

In 2004, the Administrative Procedure Law of the People's Republic of China regulated the approval procedures of governments at all levels, improved the approval disclosure system and information feedback mechanism, established an administrative approval accountability system, and further clarified the legal relationship between the government and enterprises, which has created a more relaxed legal environment for enterprises to fulfill their CSR. As part of the central government, various ministries and committees proactively perform their duties and formulate corresponding CSR policies within their powers. For example, in 2006, the China Social Responsibility Research Center under the Ministry of Commerce established an independent research institution China WTO Forum. In 2007, the China Banking Regulation Commission issued the opinion of the General Office of China Banking Regulatory Commission on Strengthening the Social Responsibility of Banking Financial Institutions. In 2009, the Ministry of Commerce issued the Guidelines on Fulfilling Corporate Social Responsibility by Foreign Invested Enterprise.

Particularly, compared with other government departments, the State-owned Assets Supervision and Administration Commission of the State Council has a more direct leadership role in the implementation of CSR by

enterprises. Since 2006, the State-owned Assets Supervision and Administration Commission of the State Council has actively promoted the CSR agenda in the central government and has monitored the compliance of CSR as government supervision of central state-owned enterprises. In 2011, the State-owned Assets Supervision and Administration Commission of the State Council issued the Outline for the Implementation of the Coordinated Development Strategy of Central Enterprises during the 12th Five-Year Plan Period of the Central Government. In 2013, the work summary of the State-owned Assets Supervision and Administration Commission of the State Council fully implemented the spirit of the Third Plenary Session of the Eighteenth Central Committee of the Communist Party of China, and further strengthened the ability of state-owned enterprises to perform CSR. These are all government department regulations, and although their effectiveness is lower than the laws promulgated by the highest authority, they can be explicitly implemented nationwide.

### **3.2 CSR policy at the local level**

To build a good and harmonious relationship between enterprises and stakeholders, and to enhance the competitiveness of enterprises and provide a new way to promote regional economic development, in practice, local governments are committed to building complete CSR strategic plan and evaluation system according to laws and administrative regulations or departmental rules of the central government. For example, in 2007, the Pudong New Area issued the Guidance on the Promotion of Corporate Social Responsibility, and it is a joint announcement by sixteen committees, offices and bureaus to guide all enterprises to follow standards and carry out CSR related work in Pudong New Area. Later, the People's Government of Pudong New Area published the Several Opinions of Pudong New Area on Promoting Corporate Social Responsibility, and as an important measure for the reform of the Pudong New Area, it announced the launch of the Pudong New Area to promote the establishment of the corporate social responsibility system in the form of comprehensive supporting document reforms. In the same year, the Corporate Social Responsibility Evolution System was published to take the responsibilities of rights and

interests, environment, integrity, and harmony as important indicators. In 2009, the Opinions on Promoting Corporate Social Responsibility was upgraded to the Shanghai Municipal Local Standards of Corporate Social Responsibility with the approval by relevant departments in the Shanghai Municipality, and this standard is applicable to the performance and evaluation of the social responsibilities of enterprises carrying out production and operation activities in Shanghai. In 2011, the Pudong New Area Commission of Commerce took the lead in formulating the Pudong New Area Three-Year Action Plan for Accelerating the Establishment of Corporate Social Responsibility System (2011-2013), summarizing the three-year implementation situation, proposing a new round of action plans, further improving this opinion, and submitting it to the new district government for approval. In 2020, the People's Government of Pudong New Area revised the Several Opinions of Pudong New Area to Promote Corporate Social Responsibility, and further emphasized that during the period when the new area promotes the establishment of a corporate social responsibility system, the new area's finances will arrange special funds to promote the establishment of a corporate social responsibility system in the new area.

In this process, the CSR joint meeting composed of 17 government agencies was established in Pudong New Area, and they promoted the development of CSR by formulating CSR guidelines, launching CSR cooperation work, and determining CSR working mechanisms. Subsequently, the CSR Office was established in the Shanghai Pudong New Area Commerce Committee, responsible for the daily work with organizing the formulation and implementation of CSR plans, establishing an information exchange platform, and organizing evaluations. From this perspective, local governments are the link between China's top-down CSR policies, because they are important promoters and implementers of the central government's CSR policies.

### **3.3 Self-regulation CSR policy**

In China, self-regulatory organizations are represented by industry associations that play an important role in the practice of CSR. For example, China Enterprise Confederation, Global Compact Promotion Office, China



Business Council for Sustainable Development, China Association of Social Workers, Committee of Corporate Citizenship, and Guangdong International Social Responsibility, etc. As promoters of best practices of CSR throughout the country, self-regulatory organizations fulfill their responsibilities including protecting consumer rights and labor rights, as well as ensuring responsible capital and environmental protection to mention but a few. As an important representative of encouraging enterprises to protect consumers' rights and interests voluntarily, in 2007, the China Consumers Association issued the Guidelines for Good Corporate Social Responsibility of Consumer Protection in accordance with the People's Republic of China on the Protection of Consumer Rights and Interests and relevant government regulations.

As the self-regulatory organization that helps and supervises enterprises to protect the rights and interests of employees, in 2010, the All-China Federation of Trade Union, joined by the China Enterprise Confederation, the Ministry of Human Resource and Social Security-issued the Notice on Further Promotion of Rainbow Plan to Implement Collective Contract System. In 2009, as self-regulatory organization monitoring the investment of banks and financial assets, the China Banking Association, under the guidance of the China Banking Regulatory Commission, issued the China Corporate Social Responsibility Guidance for Financial Institutions in Banking Industry. In fact, self-regulatory organizations can not only help the government implement CSR but can also formulate CSR policies and evaluation standards on their own. For example, in 2008, the China Federation of Industrial Economics and 10 domestic national industry associations or federations issued the Guidelines for China Industrial Enterprises and Association Social Responsibility. In 2009, the Shenzhen Stock Exchange clearly stated in the Shenzhen Stock Exchange 100 Index that listed the companies' need to follow the Shenzhen Stock Exchange's social responsibility instructions to voluntarily disclose CSR reports.

The participation of self-regulatory organizations is a manifestation of the prosperity of the CSR policy, because they are distributed in all walks of life, and can also be established based on regions. To some extent, the central government compels enterprises to assume the lowest level of

CSR through laws and provide legal support for CSR beyond what the laws mandate, and local governments are more based on local conditions, which are characterized by CSR policies with clear goals and various measures. However, as an important participant in promoting CSR, self-regulatory organizations do not only make meaningful contributions to government functions, but also use their own advantages to promote the development of CSR. For example, industry associations can use their professional advantages to create specific related terms within the government-driven CSR framework and make CSR policies more practical. In this sense, the central government, local governments, and self-regulatory organizations in China could actively adopt correct methods and advanced public policies to guide enterprises to increase the implementation of CSR according to national conditions, because this is an inevitable trend and requirement for the sustainable development of the Chinese economy.<sup>15</sup>

#### 4. THE TOP-DOWN CSR MODEL – THE CASE OF CHINA

China's CSR development model differs from the private sector-led model in western developed countries. China has a Big Government and Small Society. That is, the government has great authority in the country's political and economic life. Even though self-regulatory organizations play an important role in China's CSR policy system, all self-regulatory organizations usually have an official color and are committed to cooperating with the government.

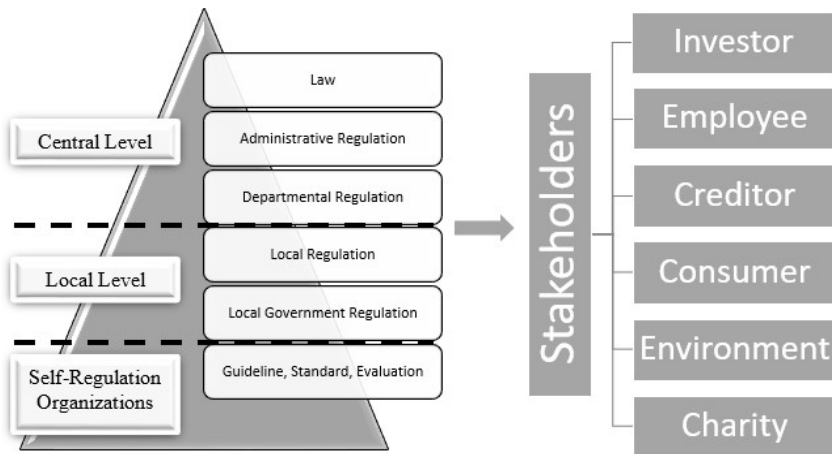
In the top-down CSR policy system, the central government plays a macro-control role, and given that it controls the power of resource allocation, it is clearly the leader in the top-down model. Local governments are the specific implementers of the central government's macro policies. They can flexibly formulate various relevant laws

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<sup>15</sup> Li, K (ed.), *Evolution and Development of Public Policy for CSR in China*. (China Economic Publishing House, 2014)

and policies that are conducive to the implementation of CSR based on the actual local conditions and without violating the spirit of the central government's policies. Therefore, in the top-down model, local governments are an important part of promoting the implementation of CSR policies. Compared with local governments, self-regulatory organizations are more professional and targeted. The CSR policies of self-regulatory organizations must not violate the macro policies of the central government and the implementation plans of local governments. But it is undeniable that the relationship between self-regulatory organizations and enterprises is more intimate and convenient, and they are the mediator between the government and enterprises. In this case, the central government, local governments, and self-regulatory organizations cooperate with each other but perform their own separate duties.

**Figure 1: China's Top-Down CSR Model**



**Source:** Tang, 2015

From a certain perspective, CSR policy in China is a scientific decision made by the government to solve social problems and realize public interest through the application of government power and resource advantages. It provides norms and incentives for enterprises to fulfill their corporate

social responsibilities. The existence of CSR policy lies in adjusting and coordinating conflicts of interest between enterprises and stakeholders. In view of this, any subject in the CSR policy system from top to down is expected to maintain a cautious attitude to ensure the feasibility and follow-up of the CSR policy. Therefore there are usually the following steps: plan reservation, measure setting, supervision implementation and impact evaluation. In other words, the central government, local governments, and self-regulatory organizations must first determine the target, then propose specific measures, then monitor the implementation of the program, and finally evaluate the effect of the program. More so, the current CSR policies in China are increasingly emphasizing the cooperation between the government and other organizations, thereby increasing the in-depth development of CSR policies in economic globalization and world integration. China's CSR policy model from top to bottom is rooted in China's social reality, which in many ways differ from the social systems in the rest of the world.

## **5. CONCLUSION AND POLICY RECOMMENDATION**

From the discussion so far, it is apparent that law is a necessary element in the framework of the CSR policy system in China. However, it is worth noting that arranging the position of the law to balance the interest relationships involved in the performance of CSR and to ensure the realization of the effectiveness of the system is not something company law alone can accomplish. To a certain extent, CSR implementation transcends legal responsibilities,<sup>1</sup> and the legal implementation of social obligations is a way for law to emerge. But once this process is completed, the obligation of the same content can only be defined as a legal obligation for the corporations, rather than a social obligation. More so, CSR is a social obligation that transcends the law, and therefore requires the active participation of all stakeholders in the policy formulation process so as to encourage voluntary participation in the implementation process. The Top-Down CSR model used by China has a unique

challenge. And that is, corporations may feel alienated from the laws and may not be willing to voluntarily participate in the implementation process. Beyond the law, it is imperative to create incentives or pressures for enterprises to perform social responsibilities (Zhang, 2010).<sup>16</sup> From the foregoing, the improvement of CSR policy and practice in China requires reforms designed with special consideration of the unique characteristics of the Chinese society to encourage stakeholder involvement in the policy formulation and participation in the implementation process.

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<sup>16</sup> Zhang H, 'Corporate Social Responsibility: The Position of the Law' (China Business Law Annual Social Responsibility in the Perspective of Commercial Law, Intellectual Property Publishing House 2009)<<http://www.iolaw.org.cn/showArticle.aspx?id=2624>> accessed 9 February 2021