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Salient stakeholders in corporate social responsibility reporting by Chinese mining and minerals companies

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ABSTRACT

This paper investigates the influence of key stakeholder groups on Corporate Social Responsibility (CSR) disclosures by Chinese mining and mineral companies. Salience of stakeholder groups founded in stakeholder theory forms the basis for this investigation because of the rising influence of a range of different stakeholders on corporate disclosures in the mining and mineral industry in Western countries. The aim is to examine whether such stakeholders appear to be salient in the emerging Chinese context. The contents of 176 corporate annual and CSR reports produced by all mining and minerals companies listed on the Shanghai and Shenzhen Stock Exchanges in the four year period 2007 to 2010 were analyzed. Results indicate that in addition to the central government, salient stakeholders with a significant impact now include international consumers, while unexpectedly mining industry associations, local communities and employees are not considered as salient as they do not have a significant impact on CSR reporting practice. The main policy implication is that considerable scope remains for improving accountability through CSR reporting to be encouraged by incorporating the views of the current stakeholder groups exhibiting low salience in the mining and minerals industry in China.

1. Introduction

In recent years, the role of stakeholders and their salience for corporate sustainability and corporate social responsibility (CSR) disclosures have received increasing attention in many countries and industries. Deteriorating environmental conditions have heightened stakeholder expectations about CSR practice, particularly for the mining and minerals sector (McDonald and Young, 2012). Over the past 10 years, reducing environmental impacts and improving community relations have been regarded as the top two issues for mining industry stakeholders (IIED, 2012). In order to improve the chances of its long-term viability the mining and minerals industry has been driven to increase its social responsibility through transparent disclosures about improving the environmental cleanliness of operations.

Evidence suggests that involvement of external stakeholder groups motivates corporations to move social and environmental performance towards cleaner production (e.g. McDonald and Young, 2012; Aschehoug et al., 2012). Public opinion about the ecological sustainability of the mining sector appears to be poor and so increasing CSR activities and disclosures has been viewed as a necessary way for management to portray a cleaner and greener image of this high profile “dirty” sector (Jenkins and Yakovleva, 2006). Hence, building demands and expectations of salient or the most relevant corporate stakeholders into business processes requires the development of an integrated management system with measurable indicators for cleaner production and their disclosure to improve accountability (Asif et al., 2013).

CSR reporting practice has been one of the most important areas in social and environmental accounting research (Belal and Momin, 2009). Previous studies often regard corporate disclosure of CSR information as a company’s response to ‘social expectations’, demonstrating legitimacy in the eyes of ‘society’ (e.g. Laine, 2009; Tilling and Tilt, 2010). More specifically, with social and environmental issues becoming increasingly important to a wider range of stakeholders and increasing demand by these stakeholders for reliable and accurate information regarding corporate social and environmental performance, a broader stakeholder perspective on CSR reporting practice and development has been supported by research.

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Stakeholder theory specifies how an organization interacts with particular stakeholder groups to comply with stakeholder expectations and legitimize operations (Deegan, 2006). As Islam and Deegan (2008) indicate, from a stakeholder perspective, an organization's reporting of CSR information is a way of managing or responding to salient stakeholder groups such as customers, suppliers, employees and communities (Parmar et al., 2010) in order to receive necessary support from them for survival.

The role of stakeholder pressures on CSR reporting may be specific to context, because each country has its unique social and political, regulatory, economic and cultural institutions, which may lead to significant differences in stakeholder powers in relation to approaches to CSR (Abreu et al., 2012). However, nearly all studies about theoretical development and empirical analyses of CSR to date have been conducted in developed countries (Liu and Anbumozhi, 2009) and its applicability is less understood and little researched in the context of developing countries.

China, the largest developing country in the world with its unique industrial and socioeconomic fabric, has maintained a fast growing economy for over two decades (Wang and Qin, 2010). In parallel with China's rapid economic growth, various social and environmental problems have emerged, threating economic prosperity (Liu and Anbumozhi, 2009). Li (2007) acknowledged that Chinese companies need to increase socially responsible, transparent and ethical business practices to achieve sustainable growth and maintain their competitive edge. In recent years, reporting CSR information has become a new phenomenon amongst Chinese companies. A recent report by KPMG (2011) reveals that Chinese companies are catching up with traditional leaders in European countries in the field of CSR reporting with almost 60% of China's largest companies reporting corporate responsibility metrics. Those companies in environmentally sensitive industries, such as mining, oil and gas and manufacturing, are particularly keen to disclose a high level of social and environmental information.

The supply of minerals and energy is critical to the maintenance and growth of human and environmental wellbeing (Lodhia et al., 2013). In the mining sector, disclosure issues are acute, particularly in the developing world where the mining sector faces its biggest test in applying the same standards of practice and performance, ethics and behavior as in developed countries (MMSD, 2002). In order to maintain legitimacy for ongoing operations, mining companies tend to have higher levels of social and environmental disclosures to mitigate the effects of large and noticeable impacts on the environment and society (Adams and Harte, 1998). The increasing numbers of mining companies that issue environmental reports and the richness of environmental data in their reports have been observed in the seminal work of Peck and Sinding (2003) a decade ago. In China, the mining and minerals industry has notionally been open to greater diversity with salient stakeholder groups potentially having a significant impact on current CSR disclosure practice. Therefore, the real world problem considered is *the extent to which salient stakeholder groups have emerged in the CSR practices of China's mining and minerals industry*.

Drawing upon stakeholder theory and Mitchell et al.'s (1997, 2011) stakeholder salience framework, this study focuses on several stakeholders and their influences on CSR disclosures of listed companies in China's mining and minerals industry during the four year period 2007 to 2010, a period with significant growth of CSR reporting. The findings will help provide a better foundation for understanding ways to improve corporate social and environmental performance, accountability and transparency, and consider potential engagement with the broad set of salient stakeholder groups evident in Western economies.

The remainder of the paper is structured in five sections. Section 2 provides a brief overview of the status of CSR reporting in China followed by discussion of the Chinese mining and minerals industry and associated CSR development. Section 3 considers the stakeholder perspective used in previous CSR studies and, based on this, a stakeholder framework is proposed. Related hypotheses are then developed. Section 4 outlines the research method applied to test the hypotheses generated. Commentary includes sample selection, study period, the method of content analysis and measurement of variables. Results and discussion are presented in section 5, while Section 6 draws conclusions and implications from the study.

2. Increase in CSR reporting in China and its mining sector

Belal and Momin (2009, p.138) indicate that published CSR research on mainland China is relatively scarce, despite a dramatic increase in CSR reporting by Chinese companies since the mid-2000s. The concept of CSR has become one of the key components in the landscape of 'building a harmonious society' promoted by the Chinese government. According to the China WTO Tribune (2010), a total of 582 CSR reports were released in 2009, compared with only 169 reports released the year before, accounting for about 15% of the global increase in the same year. As at the end of 2010, a total of 703 CSR reports were published (Guo et al., 2010). Although the volume of CSR disclosures has significantly increased, the credibility and quality of CSR information disclosed by Chinese companies remains open to question (Guo et al., 2010).

An evaluation of CSR reports released by Chinese companies has been conducted between 2001 and 2009, based on an indigenous assessment system called the *Golden Bee CSR Report Assessment System 2009*. The study identified that about 50% of the reports were still at a 'starting' stage characterized by structural deficiencies, inadequate information in terms of depth or breadth, low coverage of reported indicators, and a gap in responding to stakeholder requirements and expectations (China WTO Tribune, 2010). Disclosure of social performance by Chinese companies was found to be generally better than their disclosure of environmental performance, presenting a similar picture to findings from a number of studies in developed countries (e.g. Islam and Deegan, 2008). The CSR Research Center of the Chinese Academy of Social Science (2010) measured CSR reporting quality of the top 100 Chinese companies in terms of responsibility management systems, and economic, social and environmental performance. The study found that 84.4% of top companies were classified into 'starters' and 'bystanders', commencing disclosure of CSR information, or having very limited disclosures. Eleven percent of companies were classified into 'followers' with information disclosed but in an incomplete and insubstantial manner. Only 4.7% of the top 100 Chinese companies disclosed substantial information and periodically published CSR reports. However, these companies failed to disclose information about stakeholder engagement and corporate value, suggesting that only an *initial* stage of CSR development had been reached (Wang and Qin, 2010).

A few international studies confirm that CSR reports of Chinese companies remain below the level of international practice. For example, the study conducted by China WTO Tribune (2010) reveals that only 7.8% of CSR reports produced by Chinese companies made reference to the Global Reporting Initiative (GRI G3), with 6.1% verified by independent third-party auditing organizations. Alon et al. (2010) analyzed the status of CSR communications in the emerging countries, Brazil, Russia, India and China (BRIC), and compared the extent and content of disclosures from a sample of over 100 companies from these countries. They found considerable variation in the implementation of CSR in BRIC nations with Chinese companies providing the lowest volume of information about a number of CSR issues, including motives for CSR engagement,