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Stakeholders' power, corporate characteristics, and social and environmental disclosure: evidence from China

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ABSTRACT

This paper investigates the influences of stakeholders' power and corporate characteristics on social and environmental disclosure practices of socially responsible Chinese listed firms identified by a social responsibility ranking list. A stakeholder-driven, three-dimensional social and environmental disclosure index including disclosure quantity, disclosure type quality and disclosure item quality, is constructed to assess sample firms' social and environmental disclosures in their two public reports: annual reports and corporate social responsibility reports. Findings indicate that corporate social and environmental disclosures have significant and positive associations with firm size, profitability, and industry classification. The roles of various powerful stakeholders in influencing corporate social and environmental disclosures are found to be generally weak in China, except that shareholders have influenced corporate social and environmental disclosures and creditors have influenced corporate disclosures related to firms' environmental performance.

1. Introduction

Over the past three decades, China has made great achievements in its economic development by transforming from a central planned economy to a market-oriented one, establishing capital markets, and attracting substantial foreign direct investment, which has resulted in China's carving out a place in the globalized market. However, along with the rapid economic growth, a number of serious social and environmental issues have arisen, including environmental pollution, energy shortages, occupational diseases and death, and an absence of product responsibility. For instance, dangerous working conditions and occupational diseases and injuries in mining and labor-intensive manufacturing industries are often reported in both Chinese and foreign media (UNESCAP, 2010; World Bank, 2004). In particular, in 2008, with the news that milk powder exported from some Chinese firms was declared poisonous to human health, at least 25 countries stopped all imports of Chinese dairy products (UNESCAP, 2010). Events such as this serious social reputation crisis have made corporate social responsibility (CSR) a priority for the Chinese government, and an essential tool to ensure and propel China's economic growth.

Facing these social and environmental issues, the Chinese government has made sustainable development a national strategy to ensure continuous economic growth, and has made efforts to encourage Chinese firms to become more socially and environmentally responsible to their stakeholders. Social and environmental disclosure is a relatively new practice for Chinese firms. Prior to 2005, a very limited number of Chinese firms disclosed social and environmental information in their annual reports or social and environmental reports (including environmental reports, CSR reports, or sustainability reports). In early 2008, China's *State-owned Assets Supervision and Administration Commission of the State Council* (SASAC) issued recommendations to guide social responsibility activities of central state-owned enterprises (SOEs) (SASAC, 2008). In response to the Chinese government's efforts to highlight sustainable development, both the Shenzhen Stock Exchange (SZSE) and the Shanghai Stock Exchange (SSE) promulgated social responsibility guidelines for listed firms in 2006 and 2008 respectively, to encourage listed firms to publicly disclose social and environmental information in their annual reports or CSR reports. Consequently, increasing Chinese listed firms began to publish CSR reports or sustainability reports as supplementary reports to annual reports. All

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these governmental efforts and relevant agencies' initiatives highlighted the sudden surge in corporate social and environmental disclosure in China. According to the SSE, in 2008, 290 firms out of about 980 firms listed on the SSE published CSR reports in addition to their annual reports, and of these, 282 firms published them for the first time (China Securities Journal, 2009). With the Chinese communities' concerns on social and environmental issues, an independent rating agency initiated by *Southern Weekend* (one of China's most popular newspapers), consisting of a group of experts and scholars from the government, industries, universities, and research institutes, has taken the initiative to rank Chinese listed firms in terms of their social responsibility levels in 2008.

Corporate social and environmental disclosure as a dialog between firms and their stakeholders who are interested in corporate social and environmental activities, demonstrates the fulfillment of corporate social responsibility to their stakeholders. Some of these stakeholders have the power to influence managerial decisions to disclose social and environmental information, and past studies have demonstrated that decisions to disclose are also influenced by corporate characteristics (Liu and Anbumozhi, 2009; Roberts, 1992; Unerman, 2007). It is in that light that this study aims to examine the influences of stakeholders' power and corporate characteristics on corporate social and environmental disclosure in the Chinese context. This study extends the literature in following ways. First, it examines corporate social and environmental disclosure practices from stakeholders' rather than firms' or researchers' perspectives. It does so by constructing a stakeholder-driven, three-dimensional social and environmental disclosure index that integrates the disclosure quantity and two aspects of the disclosure quality perceived by stakeholders. Secondly, it combines two theoretical underpinnings, legitimacy and stakeholder, to construct and examine empirical variables, acknowledging that two frameworks rather than one provide more meaningful insights in understanding social and environmental disclosure from stakeholders' perspectives. Thirdly, considering that corporate social and environmental disclosure is a relatively new, underdeveloped, but somewhat regulated phenomenon in China, this study examines the socially responsible firms to obtain 'best disclosure practice' insights into the Chinese context.

To achieve the above research objectives, a joint theoretical framework of legitimacy theory and stakeholder theory was developed. The proposed hypotheses were then tested by using the data generated through content analysis of reports, evaluating stakeholders' perspectives from questionnaire survey and panel consultation, developing a social and environmental disclosure index, and applying ordinary least squares regression to evaluate the association between stakeholders' power, corporate characteristics and disclosures. The conclusions indicate that corporate characteristics (firm size, profitability, and industry classification) have statistically significant associations with corporate social and environmental disclosure. Findings also indicate that stakeholders generally have weak powers in influencing corporate social and environmental disclosure, although shareholders have influenced corporate social and environmental disclosure and creditors have influenced corporate disclosures related to their environmental performance.

The remainder of this paper is organized as follows. Section 2 reviews the literature related to corporate social and environmental disclosure. Section 3 explains the theoretical framework and develops relevant hypotheses. Section 4 describes the sample and research methods used in this study. Section 5 presents the empirical results and analyses, and Section 6 provides conclusions.

2. Literature review

The social and environmental disclosure literature has accumulated a number of studies examining the determinants of disclosure (Branco and Rodrigues, 2008; Cormier and Gordon, 2001; Garcia-Sanchez et al., 2013; Hackston and Milne, 1996; Roberts, 1992). Corporate characteristics of disclosure typically examined in the literature include firm size, profitability, industry classification, country of origin, and firm age. Although some determinants have been repeatedly identified, the findings from prior studies are mixed. As to firm size, several studies suggest that large firms made more social and environmental disclosure than small firms (Choi, 1999; Cormier and Gordon, 2001; Hackston and Milne, 1996; Mahadeo et al., 2011), whereas Roberts (1992) found no relationship between firm size and the level of corporate social and environmental disclosure. Likewise, several empirical studies have found that industry classification does appear to affect corporate social and environmental disclosure (Branco and Rodrigues, 2008; Choi, 1999; Hackston and Milne, 1996) but the studies are not clear or consistent enough to determine directional effects with precision (Gray et al., 1995). Empirical findings on the profitability and disclosure relationship are also mixed, with some studies failing to find any relationship between profitability and corporate social and environmental disclosure (Hackston and Milne, 1996; Patten, 1991), others finding a negative relationship (Neu et al., 1998), and still others finding a positive relationship (Cormier and Magnan, 1999, 2003; Roberts, 1992).

Stakeholders' powers include influences exerted by various stakeholder groups on firms, and these stakeholder groups are typically shareholder, creditor, government, and special interest groups (Choi, 1999; Cormier and Magnan, 2003; Garcia-Sanchez et al., 2013; Roberts, 1992). The findings of previous studies have indicated that corporate social and environmental disclosure is associated with various stakeholder groups: shareholders (Cormier and Magnan, 2003; Deegan and Rankin, 1997), creditors (Choi, 1999; Roberts, 1992), governmental influence (Garcia-Sanchez et al., 2013; Roberts, 1992), and special interest groups (Deegan and Blomquist, 2006; Deegan and Rankin, 1997).

Most of the previous studies in the literature were conducted in developed countries, and there is a shortage of studies focused on developing countries and China in particular. Even the extant literature focused on the Chinese context is mostly descriptive (Guo, 2005; Xiao and Hu, 2005) and fails to provide an in-depth analysis of the determinants (corporate characteristics and stakeholders' power) and their associations with firms' disclosures. Two exceptions are Liu and Anbumozhi (2009) and Zeng et al. (2010). Zeng et al. (2010) examined the status of environmental disclosures of 871 listed manufacturing firms in China, and found that industrial sector, firm size, and ownership are determinants of corporate environmental disclosure. Liu and Anbumozhi (2009) examined the determinants affecting environmental disclosures of Chinese listed firms and found that firms' environmental sensitivity and firm size are significantly and positively associated with environmental disclosure, and theorized their findings under stakeholder theory.

Unlike previous studies both in Western and Chinese contexts, this study measures corporate social and environmental disclosure from the stakeholders' perspectives rather than the researchers' perspectives. A stakeholder-driven, three-dimensional social and environmental disclosure index that integrates the disclosure quantity and two aspects of the disclosure quality is constructed to measure corporate social and environmental disclosure. The two aspects of disclosure quality (i.e., disclosure type quality and disclosure item quality) in the index are approached by surveying stakeholders to obtain their perceptions about disclosure type