

The Dilemma and Way Out of Effectively Assuming Corporate Environmental Responsibility in China

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Abstract: As part of Corporate Social Responsibility (CSR), Corporate Environmental Responsibility (CER) is playing an increasingly important role in the face of growing environmental problems. In China, both the central government, local governments, and enterprises themselves have dilemmas that hinder the effective assumption of corporate environmental responsibility. This paper summarizes and analyzes the dilemmas faced and proposes corresponding solution paths to help the overall development and construction of China in the future.

1. Introduction

Scholars usually consider that the concept of Corporate Social Responsibility (CSR) first appeared in the public eye with the publication of Bowen's *Social Responsibility of Businessmen* in 1953. Undertaking CSR is a way for companies to balance economic, environmental, and social needs while meeting the expectations of shareholders and stakeholders. With the continuous development of this concept, it is gradually transitioning from voluntary decisions at the enterprise level to mandatory regulations at the national levels. Compared with the more mature research and application of CSR in some western countries and the relatively perfect legal regulation, this concept has attracted attention in China relatively late. The relevant legal regulation is also relatively shallow and limited. Its research and application are still under continuous development and improvement.

With the intensification of environmental pollution and resource depletion, international organizations, governments, and academia have begun to recognize the value of environmental protection, and the concept of Corporate Environmental Responsibility (CER) has attracted more attention. Under the traditional enterprise theory, the basic fact that enterprises are profit maximizers under the condition of minimizing private costs is difficult to change, which also leads to the maximization of social costs and thus intensifies the incongruity between humans and nature [1]. As independent market entities, enterprises use resources, organize production, and pursue their economic interests, which is not wrong. However, as a member of the society, while enjoying the facilities provided by the society such as labor, public services, and production resources, enterprises naturally should protect the healthy existence of natural resources and other factors of production, through which they can achieve the healthy development of themselves and the society [2].

Due to the accumulation of unresolved environmental problems over the years and the creation of new environmental issues, the environmental issues brought about by enterprises are now more severe than ever in the present era. A global ecological crisis has emerged, and the ecosystem has become extremely fragile that nature will one day lose its ability to provide for human beings if left to its own devices [3]. Therefore, CER as a part of CSR, plays an increasingly important role in the context of increasingly serious environmental problems. China is relatively late in introducing CSR, and there are still many difficulties that need to be solved in the concrete practice of CER.

2. Dilemmas of Effectively Assuming CER

2.1. Inadequate National and Local Regulations on CER

2.1.1. National level: Inadequate Legal Regulation Related to CER

In 2005, China's Companies Law was re-amended Article 5: "In its operational activities, a company shall abide by laws and administrative regulations, observe social morals and commercial ethics, persist in honesty and good faith, accept supervision by the government and the public, and assume social responsibility." The concept of CSR was written into law for the first time in China, signifying that strengthening CSR will become a general trend and pointing the direction for the future sustainable development of enterprises. In 2014, a major document focusing on legal work entitled Decision of the CCP Central Committee Concerning Some Major Questions in Comprehensively Moving Governing the Country Forward Law was issued, which emphasized the need to strengthen CSR legislation, indicating the lack of CSR-related legislation in China. Article 86 of the Civil Code, enacted in 2020, states that "A for-profit legal person shall, when engaging in operational activities, observe commercial ethics, maintain the security of transactions, subject itself to the supervision of the government and the public, and assume social responsibilities." further emphasizes the importance of CSR.

However, China has not introduced a special CSR law, and the legal regulation of CSR is limited and imperfect. The relevant legal provisions are more like advocacy recommendations than mandatory regulations. Expressly, the Environmental Protection Law proposes that failure to fulfill the social responsibility to protect the environment is a violation of environmental protection and sets out relevant punitive measures. Still, it is not severe enough, in practice, there is a situation where penalties may or may not be imposed, showing that the legal consequences of failure to assume social responsibility are not serious. In general, the existing laws and regulations on CSR in China are less binding and less applicable, so it is difficult to achieve the effect of making enterprises actively assume social responsibility.

From international experience, many countries, represented by the United States, the United Kingdom and France, have incorporated environmental responsibility into relevant laws as mandatory. In the US, environmental and natural resource protection is explicitly included in the scope of CSR; in the UK, the Companies Act 2006 includes a requirement for large companies to include business review as part of their annual directors' report and to include the company's contribution to employees, social and community issues, environmental matters as disclosure information; in France, the New Economic Regulation Act 2001 explicitly requires listed companies to disclose information about their social, geographical, and environmental protection. In contrast, the requirements for CER are stronger in European and American laws.

2.1.2. Local Level: Insufficient requirements for enterprises to assume CER

Since China has limited national policy documents that explicitly require CSR, it is a direct result that there are only a handful of relevant local policies and regulations, and the few policies and rules that exist are primarily the result of local implementation and enforcement of corresponding policies after the promulgation of national policies.

In addition to the implementation of national policies, few local governments have formulated CSR policies based on the future development goals of their regions, which reflects the limited understanding of the importance of CSR by local governments. For example, for provinces with a large number of natural resources and many industrial enterprises, the absence of CSR policies, including CER, can lead to resource waste and environmental pollution posing obstacles to the sustainable development of the local society. Therefore, the government, as the main body of regional policymaking, should introduce and improve relevant policies according to local conditions so that each enterprise can actively assume CER.

2.2. Insufficient Willingness of Enterprises to Undertake CER

First, focusing on the data of previous studies, according to the latest report released in 2020, the

development of social responsibility of the top 300 Chinese enterprises is still at the stage of "starters" as a whole, and more than 60% of enterprises are at the stage of "bystanders", reflecting that the overall CSR awareness of Chinese enterprises is weak. The assumption of CER is at the worst position in the whole responsible practice segment. Taking industry research as an example, most heavy industrial industries with a high risk of environmental pollution, such as steel industry, mining industry, machinery and equipment manufacturing industry and petrochemical industry, have low social responsibility development indexes that means the willingness to assume environmental responsibility is even more lacking [4].

Second, judging from the practice of CSR in China, the overall CSR development in China has not yet reached an adequate level with some developed countries. For enterprise type, on the one hand, the CSR commitment of state-owned enterprises in China is significantly better than that of private enterprises, partly reaching the "leader" stage; however, the number of private enterprises in China is much greater than that of state-owned enterprises, so the overall willingness to undertake CSR is still insufficient; on the other hand, foreign enterprises are more active in undertaking CSR, and the forms of undertaking are also more diverse, as shown in the Research Report on Corporate Social Responsibility of Chinese Overseas Enterprises (2016-2017), up to 76% of Chinese overseas enterprises are in the "starters" and "bystanders" stage of CSR development [5]. For enterprise scale, there is a positive relationship between enterprise scale and CSR, i.e., the larger enterprise scale, the higher concern for CSR and the more importance is attached to the benefits brought by actively undertaking CSR. For geographical location, enterprises located in the east attach more importance to CSR than those in the west. At present, CSR practices in Shanghai, Beijing, Guangzhou and some places with diverse types and wider scales of enterprises, as well as those are in eastern China are better. That reflects the uneven regional development of CSR, and the good development of individual areas cannot represent the whole.

Third, there are very few companies voluntarily disclose CSR. In December 2008, the China Securities Regulatory Commission (CSRC), Shanghai Stock Exchange (SSE) and SZSE (Shenzhen Stock Exchange) jointly issued a notice to make it mandatory for some listed companies to disclose CSR reports. According to the Evaluation Report on Environmental Responsibility Disclosure of Chinese Listed Companies (2018) released in December 2019, among 3567 companies listed in Shanghai and Shenzhen, only 928 companies issued CER reports, CSR reports, and sustainability reports, accounting for less than 30% of the total [6]. Due to the lack of mandatory environmental information disclosure system and the possibility of negative impact on corporate image and reputation after disclosure, companies that voluntarily publish accurate and complete disclosure reports and clearly disclose their environmental responsibility undertakings in the reports are almost non-existent.

3. Ways of Effectively Assuming CER

3.1. For Central Government: Improving the Relevant Laws and Regulations

Clarifying the legal status of CER and imposing mandatory requirements on it are important prerequisites for the effective assumption of CER. Therefore, the existing laws should clarify and increase the penalties for violating CER which is an effective means to strengthen mandatory legal regulations. In the Environmental Protection Law, the penalties for polluting the environment, including over-emission of pollutants, should be strengthened; the word which has the same meaning likes "may" in the existing law should be abandoned, and the government should be required to impose strict penalties for violations of CER. Also, having a special law is of great significance to the development of CSR in China, and the government should speed up the process of special legislation on CSR [7] and set up a separate chapter and specific articles for CER.

In addition, the environmental information disclosure system needs to be further improved. Although the Reform Plan for the Environmental Information Disclosure Mechanism issued on May 24, 2021 is a powerful action to promote Chinese enterprises to effectively undertake CER, it contains mostly programmatic overviews of disclosure subjects, disclosure contents and specific regulatory

bodies, with no precise details. The next step in the improvement process can be considered to further clarify them, for example, to specify two points that must be disclosed in terms of disclosure contents: one is to show that the enterprise has not violated the existing regulations on environmental protection, and the other is to show the efforts and contributions made by the enterprise in environmental protection.

3.2. For Local Government: Developing Regional Policies and Systems

3.2.1. Incentive Policy: Tax Relief

Local governments may consider granting certain tax breaks on a case-by-case basis to companies that are committed to environmental protection and resource conservation by actively using recycled materials, promoting paperless offices, etc. or to companies that voluntarily disclose information about their environmental responsibilities.

3.2.2. Mandatory Policies: Disclosure and Evaluation System Construction

In addition to the incentive policy, local governments can also enact mandatory policies. On the one hand, it is feasible to expand the scope of enterprises that are required to disclose CSR reports and make the effective undertaking of environmental responsibility an obligatory content. Specifically, it is a practical way to require all listed companies and enterprises with a high risk of environmental pollution involved in the extraction, transportation, and processing of mineral resources such as oil, natural gas, and coal to disclose their social responsibility; on the other hand, especially for resource-based enterprises, different local governments should establish a unified multi-indicator system for evaluating CER in their regions, for example, one government can include pollutant emissions, resource consumption and outstanding achievements in environmental responsibility as evaluation indicators, and then regularly assess the fulfilment of CER by enterprises in the region. The government will impose different levels of penalties, including warnings, fines and ordering for suspension of production and business operation, depending on the circumstances of each case, on companies that fail to disclose CER or fail to pass the CER assessment.

By developing incentive and mandatory policies that apply to companies in each region, both rewards and penalties will be met, and companies will focus more on their social responsibility while pursuing economic benefits.

3.3. For Enterprises: Consciously and Actively Assume CER

By consciously and actively fulfilling their environmental responsibilities of pollution control, environmental protection, green innovation, and sustainable development of resources, enterprises can effectively enhance their core competitiveness, lay a solid foundation for their own more sustainable and stable growth, and ultimately benefit the country from a holistic perspective. Enterprises are facing colossal competition all the time, and the main reason for enterprises to take CSR is competition [8], therefore, undertaking CSR becomes "an effective plus" for enterprises to avoid the result of "the weak being eliminated" and survive in the fiercely competitive environment.

For production-oriented enterprises, they must understand their waste and pollutant emissions clearly, and to upgrade their environmental protection facilities and pollutant treatment facilities. In particular, enterprises engaged in the extraction, transportation, processing and use of resources such as oil, natural gas, non-ferrous metals and coal mines are more likely to cause heavy pollution to the environment in the process of development and production, and it is more inevitable for them to take the initiative to assume CER. For commercial enterprises whose business is mostly trade-related, if they want to achieve an advantageous position when "going global", they need to take the initiative to assume environmental responsibility in the context of China's efforts to develop high-quality foreign trade and the global emphasis on environmental issues. Not only should they not violate existing environmental protection laws and regulations, but they should also actively engage in environmental protection campaigns, reduce paper waste within the company, accelerate the transition to a paperless office, ban the use of power during non-office hours, and strengthen the use of videoconferencing to reduce the waste of resources during travel, all of which will help to improve

their international reputation and brand value. The brand value enhanced through actively assume CER is not only a crucial way to show the strength of the organization to the outside world [9], but what's more, the brand value enhancement will invariably increase consumers' favorable feelings toward the brand, attract more loyal customers, become an invisible attraction in recruitment, attract more excellent talents in the human resource market, enhance the trust and loyalty of existing employees, reduce brain drain and enhance company productivity. When more companies join the movement to consciously assume CER, a powerful cohesive force will eventually be formed so that the overall level of corporate green innovation in China can be effectively improved [10].

4. Conclusion

The current development of CSR for Chinese enterprises is not optimistic, and it has not yet been truly and effectively undertaken. There are three levels of dilemmas from top to bottom: the imperfection of CSR and CSR-related laws and regulations issued by the central government, the limited and insufficient policy documents issued by local governments on CSR and CER, and the lack of willingness of enterprises to take the initiative to undertake environmental responsibility. It is a feasible way of future development to seek the corresponding solutions to different difficulties. The way out is for the state, governments and enterprises to cooperate to improve relevant laws and regulations, formulate regional policies and systems, and consciously take the initiative to assume environmental responsibility. On the basis of the introduction and improvement of relevant regulations by the state and local governments, only when enterprises themselves realize the necessity and urgency of assuming environmental responsibility, stop over-emissions, waste of resources and actively take measures to protect the environment, can CER be effectively assumed in the true sense.

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