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## Towards A Socially Responsible China

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## TOWARDS A SOCIALLY RESPONSIBLE CHINA: A PRELIMINARY INVESTIGATION OF THE IMPLEMENTATION OF THE GLOBAL COMPACT

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**Abstract:** The proper handling of Codes like the “Global Compact” of the United Nations is still quite new in China. On the positive side, it can be seen as a framework of what Corporate Social Responsibility (CSR) is all about, which is accepted and promoted by the Chinese government through various initiatives. However, the in-depth research into companies which signed the Global Compact strongly suggests that there is still a wide spread ignorance of the concrete content and the implicit demand for transparency and accountability of such a code. For further progress of the implementation of the “Global Compact” there needs to be more decisive and combined efforts to properly communicate how an ongoing process of communication, messages from different layers of leadership, training seminars inside the committed institutions conducted on a regular basis could enhance and communicate to all stakeholders the specific and realistic meaning of Codes in a given context. In order to be truthful, this may always pinpoint to concrete difficulties of Codes. Actually a proper whistle-blowing mechanism should be in place so that inappropriate business practices could be dealt with while securing the confidentiality of the Whistle-Blower. Instead of just being afraid to lose face, the challenge to address thorny issues related to the ten principles should be seen as a mutual learning opportunity. Special care should be given that the codes should be aligned to Business Strategy. Ethical codes are still quite often viewed – certainly not only in China – as a set of nice ideas, which do not work in practice and are often suspected to seriously harm its own competitive advantage. Codes need to be conceived as help to assist its adherence to shape their specific brand. The article argues to honor, on one side, the first approaches to acknowledge the relevance of Corporate Social Responsibility. On the other hand, it leaves no doubt that much stronger efforts must be taken in order to align the vital business interests with an ongoing implementation of codes in order to get the desired social impact.

**Keywords:** Global Compact, whistle-blowing, transparency, accountability

### Introduction to Empirical Context

#### *CSR in China*

Corporate Social Responsibility (CSR) first appeared in China in the early 1990s because of the demand for ethics programs and social responsibility audits by global buyers and the spread of global standards such as SA8000 (Shen & Fleming, 2008). Over the last half-decade, active involvement by local and

national government and the emergence of domestic standards on CSR has led to the rapid mainstreaming of the concept in China (Lu, 2008). In 2009 the Fortune China survey found 56 percent of a total of 1851 respondents answered affirmatively to the question, "Is CSR a trend that is here to stay in China?" (Forbes China, 2009). This was an increase from 49 percent in 2008. The survey found that the most commonly recognized features of CSR amongst Chinese managers included producing high quality products and services (91 percent), environmental protection and saving resources (91 percent), observance of business ethics (89 percent), employee health (88 percent), workplace safety (85 percent), and shareholder rights (82 percent). These findings suggest that, in China as elsewhere, CSR is perceived as an important management tool and strategy supporting core business objectives.

However, awareness of CSR does not necessarily equate to a fully-fledged embracing of the concept. A commitment to transparency and accountability are commonly seen as integral components of CSR, yet only 54 percent of Chinese managers felt CSR required 'transparent social policies' to address the needs of stakeholders.<sup>1</sup> Independently verified non-financial reporting through CSR or sustainability reports is a strong demonstration of a firm's commitment to transparency and accountability. While CSR reporting is on the rise in China, the total number is still relatively low and reporting standards are lagging international norms.<sup>2</sup> Considering the number of managers who responded to the Forbes survey, for instance, the actual number of firms reporting in 2009 was very low.<sup>3</sup> Rarely do reporting firms submit to third party assurance (in 2009, only 6.1 percent of all CSR reports were verified by independent organizations) and information disclosure is often insufficient and partial (Goldenbee, 2009).

Moreover, despite its increasing salience (Moon & Shen, 2010), CSR as a concept is still underdeveloped amongst the majority of Chinese small and medium sized firms. One of the most widely established definitions of CSR describes it as the range of ethical and discretionary responsibilities firms undertake including, but not limited to, their economic and legal responsibilities (Carrol, 1979). In China's developing market environment, compliance with the law is not always taken for granted. As such, many managers and executives feel that abiding by the law and contributing to the economy, through job-creation and paying taxes, constitutes the ultimate yardstick of a firm's responsibility to society. Amongst this dominant group, the concept of CSR is often rejected, or seen as synonymous with corporate philanthropy and cause related marketing.

### ***Drivers of CSR in China***

The factors driving CSR development in China are distinct from other countries. While bottom-up pressure from civil society and the media characterized the emergence of CSR in Europe and the US (Moon & Shen, 2010), in China most significant proponents and facilitators of CSR have come from the top down. Clearly, the weakness of civil society partially accounts for this deviation. In the absence of a strong civil society, other factors have played a much larger role in setting the agenda and shaping CSR practices in China. In addition, the perspective of CSR as corporate philanthropy among many managers has prevented the bottom up emergence. Clearly, CSR's development in China is unique when compared to other nations' experience.

Internationally, demands from business customers, the spread of global standards on quality and social responsibility, and the positive example set by multinational corporations have made a considerable impact in driving CSR development in China. Facing a competitive business environment with highly questionable practices (Ip, 2008), coupled with a weak legal and regulatory system, many multinational

corporations implement strong CSR programs in China to manage the myriad of operational risks that they encounter. Similarly, global standards such as SA8000, ISO9000 and ISO14000 have become important in helping global buyers to monitor and manage supply chain issues such as workplace labor standards, environmental protection and product safety (Lu, 2008). Such initiatives reassure external stakeholders that firms do not debase their ethical or quality standards while working in China, and at the same time, through positive spillover to domestic enterprises, have played a key role in the development of CSR practice in China.

Domestically, another important factor in the development of CSR has been the involvement of government. CSR was long viewed with suspicion by the Chinese central government, which argued it was a concealed form of trade protectionism. Over the last five years, national and local governments have increasingly embraced CSR and used the concept to encourage the growth of voluntary action by businesses (Tian, 2006). This change in perspective coincides with the government's push towards building a harmonious society. It also reflects the growing popularity of the idea that governments can't be expected to address tall contemporary societal goals alone (Moon, 2004). In this way CSR in China can help the government to shift some of its public burden of responsibility onto the private sector, and in so doing, rally greater private resources to achieve the government's lofty environmental and social development targets.

National and local governments have played a catalytic role in the development of CSR in China, creating minimum ethical standards for corporations while facilitating and endorsing various private CSR initiatives. This is strongly echoed in the Fortune China survey, in which 'Government Policy or Guidelines' and 'Government Attitudes' are identified as the two most important motivations for businesses to operate in a responsible way. In 2005, the China Textile and Apparel Council, with the support of the government, developed its own textile industry standard, the CSC9000T. Also in 2005, Article 5 in the Chinese Corporate Law directed corporations to accept public supervision and undertake social responsibilities. In 2007, the state-owned Assets Supervision and Administration Commission (SASAC) established guidelines for CSR implementation in State-Owned Enterprises (SOEs). This initiative likely explains why SOEs comprised 70 percent of the total reports released in 2009 (Goldenbee, 2009). In 2008 and 2009, the Ministry of Commerce (MOFCOM) launched guidelines for CSR compliance in foreign invested enterprises and financial institutions, respectively. Similarly, the Shanghai Stock Exchange, Shenzhen Stock Exchange, and China Banking Association have each enacted guidelines to encourage CSR reporting by business enterprises.

### ***Global Compact***

UN General Secretary Kofi Annan conceived the UN Global Compact program at the Davos World Economic Forum in 1999. It is commonly viewed as a response to popular discontent over the perceived negative impacts of globalization in the areas of human rights, labor, environment and anti-corruption. Recognizing the important contributions made by responsible business in the promotion of socially equitable and environmentally sustainable development, the Global Compact aims to be a vehicle for mainstreaming and embedding a set of shared values throughout markets and business activities across the world while simultaneously mobilizing resources and multi-sector collaboration in support of the UN Millennium Development Goals.

The Global Compact describes itself as a ‘leadership platform’ and ‘strategic policy initiative’ for companies committed to advancing ten universally shared business principles. Companies who sign up to the Global Compact must submit a letter of commitment from their Chief Executive, followed by annual reports known as the Communication on Progress (COP) demonstrating their continued commitment to the ten principles, as well as how they are implementing the principles in their operations and strategies. The COP thus represents a commitment by signatories, to transparency and accountability. While the Global Compact does not set itself the task of assessing and monitoring compliance with the ten principles, companies failing to communicate in accordance with the rules of the Global Compact can face expulsion.

For participants, part of the benefit of signing up to the Global Compact lies in helping them to manage the complexity of the dynamic global CSR environment, and the growing thickness of moral responsibility ascribed to businesses. The UN Global Compact acts as a ‘moral baseline’ and point of reference for companies with integrity, based on established universally shared principles. It can be viewed as part of a firm’s reputational management. Through the COP, firms are able to show external stakeholders the relationship between the set of values to which they ascribe and their actions. The initiative also allows a forum for discussion and the sharing of best-practice, promoting novel cross-sector partnerships, and access to the UN’s large experience and expertise on environmental, social and governance issues.

Since its foundation, the Global Compact has faced strong criticism from civil society, due to its failure to include effective monitoring of participants, and the participation of many companies is perceived to be either lacking in integrity or visibly uncommitted to the initiative. Critics argue that the Global Compact is used by companies as a fairly transparent means of public relations and CSR window dressing. As a result, various studies have sought to assess the impact of the Global Compact.<sup>4</sup> None however, have focused specifically on China.

The Global Compact first launched in China in 2001. In the last 4 years, participation has grown dramatically from 45 participants in 2006 to 209 by the end of 2009. Involvement of businesses in China is gaining real momentum. In the context of the rapid development of the CSR environment in China in recent years, this study hopes to contribute to the understanding of the relationship between the Global Compact and CSR development in China, as well as the understanding of the factors which drive and limit CSR development more generally.

## **Data**

### ***Survey and Interviews***

In order to gain more information on the factors affecting compliance with the UN Global Compact, we conducted a survey of 189 companies listed on the Global Compact website as business participants in the People’s Republic of China. The purpose of the survey was to ascertain participants’ awareness of the Global Compact and to gain information on implementation of the Global Compact’s principles. The survey took place from September–December 2009. Out of 189 firms, 80 firms responded for a total response rate of 42%.

In terms of survey design, we opted for a brief phone survey that could be concluded in five minutes or less. The survey asked participants (a) whether or not they were aware that they were members of the Global Compact, and (b) whether they would be willing to share details of their participation to an NGO. Forty-two respondents showed a lack of awareness and were unwilling to co-operate further. Thirty-eight organizations indicated some awareness of the Global Compact and expressed a willingness to co-operate further.

After the survey, we conducted 12 interviews with firms that had responded to our survey and expressed a willingness to cooperate further. When a firm agreed to an interview, a researcher who was fluent in Chinese would speak over the phone for 10 – 20 minutes, asking 8 pre-determined questions. Following the interview, the researcher would write down all responses, and then submit the transcript to a professional translator. Once the interview had been translated into English, we examined the transcript in order to ascertain further information on the possible causes of non-compliance among Chinese firms. These questions are reproduced in Appendix 1.

### *Archival*

We collected data on business participants in the Global Compact in China from 2000 – 2008 in order to gain some insight into factors affecting implementation of the UN Global Compact Code of Conduct. This data was obtained from the UN Global Compact website. Information on characteristics of participating firms includes the type of company, the company's sector, and the joining date. In addition, the website has archival data on organizations' communication of progress, which refers to the firms' obligation to issue reports to the United Nations on their progress in internal implementation of the Global Compact's Standards. Data is available on both the issuance of communication and the effect that communication has on the status of the firm.

Since communication (on progress) is a positive obligation placed on firms as a condition of membership, fulfilling this obligation results in no change to their status. If a firm issues an exemplary report, the UN office records this in a Notable Communication list. If a firm fails to issue a report, the firm's status changes from communicating to non-communicating. If a business participant maintains a non-communicating status, one of two outcomes may occur. Prior to 2009, the firm would be designated as inactive. Post 2009, the firm would be removed from the Global Compact.

This change in policy introduces a potential bias in the data, as the removal of some firms from the Global Compact website negatively impacts the public accessibility of their data. In order to account for this bias, data collection from the UN website was carried out prior to July 2009. These results were then compared with the UN website listing post July 2009 in order to insure that the sample has information on most of the firms, compliant and non-compliant, that volunteered to participate in the Global Compact in China between 2000 – 2008. However, the UN practice of removing all information from their website pertaining to delisted firms does mean there is a bias towards compliance in the data.

There are a total of 283 firms in our data set from 2000 – 2008, out of which 21% of firms are compliant, with an average of 2.5 years from entry into the Global Compact to the submission of a communication that fulfills UN standards on reporting. Seventy-nine percent of firms are non-compliant. These findings are summarized in Table 1.

**Table 1. Summary Statistics**

Category	Total	Mean	Min	Median	Max
Number of Subjects	283	0	0	0	0
Number of Records	1039	5.118	1	5	17
Final Exit time	0	18.369	11	19	19
Failure	59	.291	0	1	1

***Dependent Variable***

We derived two separate measures of familiarity, which capture the firms experience with the global compact for all firms present in the general population. The first variable is familiarity, which measures the number of times a firm has submitted a full report. Since firms are required to report annually, and some firms fail to do so, the count of the number of times a firm has submitted a full report helps to determine a firm's overall experience with reporting. In addition, we constructed a scale variable of familiarity, which measures the duration between reports. To supplement these measures, we used tenure, the overall time each firm spent in the general population.

***Control Variables***

Left censoring is not an issue, as the observation window for the dataset begins in 2000, the year of the launch of the Global Compact in China. Entry indicates that a firm has signed up for the Global Compact. An organization was coded one (1) if it was a company (Limited Liability Company); while zero (0) indicates that it is an SME.

We examined each firm in order to determine whether or not the firm was listed on a stock exchange. In the listed variable, 1 indicates that the firm is presently listed on a Chinese or international exchange. Whether a firm is a State Owned Enterprise (SOE) is indicated in the SOE variable, in which a value of 1 means that the firm is an SOE.

We constructed a categorical variable to account for the geographic area of each firm, in order to determine whether the degree of industrialization in the immediate business environment of the organization impacted compliance. In the variable area, 1 indicates North, 2 indicates Northeast, 3 indicates East, 4 indicates West, 5 indicates the South or Central China, and 6 indicates Hong Kong or Taiwan. In addition, we constructed a separate categorical variable for the various industries of the firms, including Oil & Gas, Basic Materials, Industrials, Consumer Goods, Health Care, Consumer Services, Telecommunications, Utilities, Finance, and Tech. Table 2 summarizes and correlates all variables.

Table 2. Bivariate Correlation Table

Variable Name	1	2	3	4	5	6	7	8	9	10	11
<b>Entry</b>	1.00										
<b>Exit</b>	.01	1.00									
<b>SME</b>	-.01	-.06*	1.00								
<b>Industry</b>	-.01	-.02	.20*	1.00							
<b>SOE</b>	.05	.18*	.12*	-.18*	1.00						
<b>List</b>	.01	.08*	-.20*	-.14*	.39*	1.00					
<b>Area</b>	-.01	-.08*	-.13*	-.01	-.24*	-.15*	1.00				
<b>Run Ten</b>	-.20*	.11*	-.07*	.03	.02	.08*	-.08*	1.00			
<b>Tenure</b>	-.51*	-.10*	-.12*	.08*	.03	.12*	-.12*	.61*	1.00		
<b>Fam</b>	.19*	.31*	-.09	.02	.14*	.06*	-.09*	-.18*	-.28*	1.00	
<b>Run Fam</b>	.17*	.29*	-.01	.02	.15*	.15*	-.12*	-.16*	-.26*	.93*	1.00

## Methods

Event-history analysis (Tuma & Hannan, 1984) was applied to estimate organizations' likelihood of issuing a fully compliant report. This was formally defined as:

$$\lambda(u) = \lim_{\Delta u \rightarrow 0} \frac{\Pr(\text{issue}(u + \Delta u) | \text{noissue}(u))}{\Delta u}$$

This reads as the conditional probability that an organization issues a report in full compliance with UN standards between tenure  $u$  and  $\Delta u$ , provided that the organization did not issue this type of report at  $u$ . A piece-wise constant exponential hazard specification was used to model the mortality hazard. The piece-wise constant exponential model had the following general form:

$\mu(t) = \exp(\alpha p + \beta'xt)$   $p=1, \dots, P$ , where  $\alpha$  is a constant that is allowed to vary between the tenure segments  $p$ , and  $\beta'xt$  is a row vector of coefficients ( $\beta$ ) and covariates ( $x$ ).

## Results

### Survey and Interviews

Out of the 189 companies surveyed, 58% (109) failed to cooperate, 22% (42) indicated a lack of awareness with the global compact program, and 20% (38) showed some awareness of the global compact program in their organization. State-owned enterprises comprised 11% of the total and also represented 10% of the total number of firms who failed to cooperate with our phone survey. Of the SOEs that responded, 33% showed an awareness of their organizations involvement in the global compact, while 14% indicated a lack of awareness of the program.

The interview questions focused on the resources devoted to the implementation of the Global Compact and the difficulties companies faced in this implementation. Resources were measured in two ways: first, whether or not the company had a department devoted to standards, and second, the amount of employees responsible for implementation. Responses were split, as 50% of companies either had a standards department or integrated Global Compact implementation into their employees work day, while 50% lacked a standards department or did not devote employee time.

The majority of firms signed up for the Global Compact because they valued the Global Compact's principles. Companies that devoted resources to Global Compact implementation also reported that, in addition to valuing the Global Compact principles, they wanted to present a positive public image. One company stated that they joined the Global Compact in response to pressure from foreign partners.

Seven firms stated that the most salient difficulty in implementation was the lack of understanding from their business partners. Three firms indicated that they needed more guidance from the United Nation in addition to this lack of network comprehension. Only one company reported any type of resistance in implementation.

In terms of reporting, four companies report every year, two companies submit some information, and two companies do not report, with 4 non-responses. Half of the companies that devote resources to the Global Compact report annually, although two companies that devote resources do not report. The two companies that did not report also indicated that they have problems communicating the importance of the Global Compact to their exchange partners.

### *Archival*

Table 3 presents the results of the event history analysis of the rates of reporting in full compliance with the standards of the global compact. Model 1 in Table 3 shows the effects of the control variables, including whether the organization is a company, an SOE, whether it is listed on a stock exchange, the geographic area of a firm, and the firm's industry. The SOE variable had a significant effect on the rates of reporting.

**Table 3. Results of Cox Piece Wise Regression**

<b>Variable</b>	<b>Coefficient</b>	<b>Robust Std</b>	<b>95% Conf</b>	<b>Interval</b>
<b>SOE</b>	.546	.250	.055	1.037
<b>Tenure Running</b>	2.063	.437	1.206	2.919
<b>Tenure</b>	-1.922	.436	-2.758	-1.088
<b>Familiarity</b>	-.257	.259	.794	2.743

The results shown in Table 3 provide modest support for the effect of tenure and familiarity on the rates of reporting. Both overall tenure and familiarity have a negative relationship, suggesting that the length of time a company spends in the global compact does not encourage full compliance in reporting. However, running tenure has a positive relationship with reporting.

## Discussion

The results of the survey point to some penetration of awareness of the Global Compact. However, a slight majority of respondents reported a lack of awareness, which may be due to the following factors. The employee contacted for the survey may not have personal knowledge of the program. As indicated by the interviews, not all companies that agree to participate in the Global Compact devote internal resources to this initiative. In addition, the Global Compact is relatively new, which may have an effect on overall company awareness.

Interviews were used to compliment the archival and survey data in the hope that firms may provide detailed information that could be used to open the 'black box' of the organization. The small number of interviews prevents accurate inferences from being drawn, but do help to shed light on the overall complexity of compliance with an external corporate social responsibility standard. For instance, companies that devote resources to the internal implementation of the Global Compact do not necessarily feel the need to report on their progress. On the other hand, companies that do not devote resources to the implementation of the Global Compact and express concern over a lack of guidance from the UN, issue reports every year that are in full compliance with reporting standards. Clearly, there are numerous factors that influence compliance.

Our study of the archival data led to two interesting results. First, SOEs are more likely to comply with the reporting standards than non-SOEs, including companies that are listed. There are a number of explanations for this phenomenon. An SOE may be more familiar with the practice of reporting internal progress to an outside entity. Alternatively, there may be a self-selection bias at work in the data. Large SOEs that compete in the national and international arenas may have higher incentives to address public image issues than non-SOEs. In the only interview conducted with an SOE, the respondent indicated that image concerns were a motivation for the company's participation in the Global Compact. Thus, these results may not be indicative of SOE commitment to social responsibility codes at a general level, but rather show that some SOEs do commit to CSR codes.

Second, the familiarity of a company with the tenants of the Global Compact at first leads to a higher likelihood of reporting. However, as tenure in the Global Compact increases over time, from which we infer that familiarity with the Global Compact also increases, the likelihood of compliance falls. In order to explain this result, we argue that familiarity with the global compact does not necessarily increase with a company's tenure in the Global Compact. It is possible that firms sign up for the Global Compact, make no effort to report, and due to this lack of effort, or engagement with the rules, never gain in familiarity.

An alternative explanation would be firms that have some familiarity with reporting may not be in full compliance at the beginning of their tenure in the Global Compact. Over time, due to their capability in complying with standards or reporting with outside entities, their efforts to comply get better, leading to full compliance. Firms that lack familiarity with either reporting or compliance in standards may fail to report. Therefore, the likelihood of reporting initially rises, as firms become more familiar with Global Compact standards, and then, as the selection mechanism kicks in, falls. The selection mechanism, in this context, refers to firms' capability to report.

### Conclusion

Our findings seem to suggest that the proper handling of Codes like the Global Compact is still quite new in China. However it can be seen as a framework of what Corporate Social Responsibility, CSR, is all about which is accepted and promoted by the Chinese government with various initiatives. For further progress of the implementation of the “Global Compact” there needs to be more decisive combined efforts to properly communicate how an ongoing process of training seminars inside the committed institutions conducted on a regular basis could enhance and communicate to all stakeholders the specific and realistic meaning of Codes in a given context. In order to be truthful this may always pinpoint to concrete difficulties of Codes. Actually a proper whistle-blowing mechanism should be in place so that inappropriate business practices could be dealt with while securing the confidentiality of the Whistle-Blower. Instead of just being afraid to lose face, the challenge to address thorny issues related to the ten principles should be seen as a mutual learning opportunity.

Public conferences focused on the Global Compact should be conceived not so much on academic speeches but addressing the multiple difficulties in making the Codes meaningful for the participants. Special care should be given that the Codes should be aligned to Business Strategy. Ethical Codes are still quite often viewed – certainly not only in China – as a set of nice ideas that do not work in practice and are often suspected to seriously harm a company’s own competitive advantage. Codes need to be conceived as help, to assist its adherents shape their specific brand. An increasingly vocal Consumer Movement is certainly discerning carefully if companies truly honor their promises or go on to cheat their stakeholders.

### Notes

1. Similarly, just 60 percent of managers felt that CSR required them to consider the expectations of the general public when designing business strategies
2. GoldenBee Development Center for Chinese CSR finds that Chinese firms’ submitted 582 CSR reports in 2009, up from 169 in 2008 and just 64 in 2007 (<http://www.csr-china.net/en/second.aspx?nodeid=d5dad5b2-2453-4015-9bb2-d650db593831&page=contentpage&contentid=6514d4a1-1f4b-4df7-9047-ed408333254c>).
3. The 2009 Fortune China managerial survey finds only 26.1 percent of participating firms published an annual sustainability/CSR report in 2009.
4. See Williams, O.F. (2004) and Kell, G. (2005).

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## Appendix 1

*Question 1:* Do you have an executive department for Global Compact in your company?

*Question 2:* What is the total number of employees who are responsible for Global Compact in your company?

*Question 3:* What was the motive for your company to join the Global Compact?

*Question 4:* What difficulties does your company face in implementing the Global Compact principles?

*Question 5:* Does your company report on your progress in implementing the Global Compact Principles?

What helps or hinders reporting?

*Question 6:* Do you want to continue your membership in the Global Compact?