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Corporate Social Responsibility Reporting Quality, Board Characteristics and Corporate Social Reputation: Evidence from China

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Abstract

Purpose – This paper examines the influence of corporate social responsibility (CSR) reporting quality and board characteristics on corporate social reputation of Chinese listed firms.

Design/methodology/approach – Firms chosen for this study are drawn from a social responsibility ranking list of Chinese listed firms. The social responsibility rating scores identified by this ranking list are used to measure the social reputation of firms studied. Empirical method are used to examine hypothesised associations between CSR reporting quality, board characteristics, and corporate social reputation.

Findings – The results indicate that CSR reporting quality positively influences corporate social reputation but CEO/chairman duality as a measure of board characteristics has a negative impact on corporate social reputation. Firm's financial performance and firm size also positively influence corporate social reputation.

Originality/value – This paper investigates the influences of CSR reporting quality and board characteristics on corporate social reputation in the context of China.

Research limitations/implications – The relatively small sample of firms for a cross-sectional study, and the proxies constructed for various concepts to empirically test hypotheses can limit generalising findings to firms outside the social responsibility ranking list. Future studies can undertake longitudinal analysis and compare socially responsible firms with others to expand empirical findings about corporate social reputation.

Keywords: China, CSR reporting, corporate social reputation, board characteristics

Paper type: Research paper

1. Introduction

China's rapid economic development is causing serious social and environmental issues, such as pollution, energy shortages, occupational diseases and death, and an absence of product responsibility. For instance, in 2008, milk powder exported from some Chinese firms was declared as harmful to human health by Chinese and foreign media. Such scandals damage the social reputation of China's food exports, with at least 25 countries stopping all imports of Chinese dairy products (UNESCAP, 2010). Events such as this has made corporate social responsibility (CSR) a priority for the Chinese government and an essential tool to for China's economic growth.

Although the term CSR originated from the West, the core principles of CSR have been historically demonstrated in China. The traditional culture of upholding responsible business practices can be traced back more than 2,500 years to Confucianism (Wang and Juslin, 2009). The Confucian virtues, such as 'righteousness–yi' and 'sincerity–xin', which resonate with the current western concepts of CSR, strongly influenced ancient Chinese merchants to pursue profits with integrity and a commitment to societal prosperity (Huang, 2008). However, Confucianism was seriously denounced during the Chinese Cultural Revolution period (1966–1976). Further, during the reform of the economic system prior to the mid-1990s, the only target for Chinese enterprises was to maximise profits with little regard to the concepts commonly embedded in Confucianism and CSR. This situation did not change until multinational firms and other instances of foreign economic participation brought the western concept of CSR into the Chinese market. These firms practiced the accepted western norms of CSR to consider relevant stakeholders' concerns (e.g., working conditions, health and safety issues) in the pursuit of profits (Wang and Juslin, 2009). Given the debacle of corporate social responsibility in China in the past, and the Chinese government's ambition to become a notable global participant, the Chinese government has made concerted efforts to encourage Chinese firms to become more socially and environmentally responsible to both their domestic and overseas stakeholders. A milestone in the development of CSR in China is the proposed overall national strategic goal of 'Constructing a Harmonious Society', which has Confucian roots and demonstrates the localisation of CSR in China (Wang and Juslin, 2009).

Social and environmental reporting with the underpinnings of corporate social responsibility (CSR) is a relatively new practice for Chinese firms. Prior to 2005, only a few Chinese listed firms published social and/or environmental reports (including environmental reports, CSR reports, or sustainability reports). In response to the Chinese government's efforts to highlight CSR, the Shenzhen Stock Exchange (SZSE) promulgated the social responsibility guidelines for listed firms in 2006. The Shanghai Stock Exchange (SSE) also issued guidance documents in 2008 to urge listed firms to publicly disclose social and environmental information in their annual reports or to publish CSR reports that exclusively inform stakeholders about firms' social and environmental activities. Consequently, more and more Chinese listed firms began to publish CSR reports or sustainability reports as supplementary reports to annual reports. 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 for the first time, highlighting the sudden surge in CSR reporting in China (China Securities Journal, 2009).

The milk powder accident mentioned earlier was not only a serious CSR issue but also a corporate failure due to poor corporate governance. Businesses face increasing pressures to demonstrate that they have best practices in governance so as to protect both tangible and intangible assets, and especially the intangibles such as corporate reputation (MacMillan et al., 2004) which are now central to corporate competitiveness and profitability. As a result, managing corporate reputation has become an important aspect of the business practices of many firms (Engardio and Arndt, 2007) in the increasingly complex globalised environment. For China, developing a market economy, establishing confidence in the capital market among investors, and expanding in the globalised market, all require firms to implement corporate governance mechanisms. The Chinese Securities and Regulations Commission (CSRC) have responded to this by releasing the "Code of Corporate Governance for Listed Companies in China" in 2002 to prepare Chinese firms to compete with their international rivals. These three initiatives taken by firms—CSR reporting, corporate governance, and corporate reputation—are a response to external pressures from stakeholders. To ensure its successful operation, a firm has to keep the support of relevant stakeholder groups, balance their interests and make the firm a place where stakeholder interests can be maximised over time (Freeman and Philips, 2002). Since the reputation of a firm exists in the minds of its stakeholders, stakeholders' perceptions on corporate social responsibility and board performance will influence the reputation of the firm. The board of a firm adopts a CSR policy and demonstrates corporate social and environmental responsibility through CSR reporting.

With the Chinese and international communities' concerns on social and environmental issues, an independent rating agency has taken the initiative to rank Chinese listed firms in terms of their social responsibility reputation levels. The aim of this paper is to examine the influence of CSR reporting quality and board characteristics on corporate social reputation in the context of China. We are motivated to examine CSR reporting quality as previous research suggest that reporting quality is more meaningful than reporting quantity in explaining the effects of reporting on corporate reputation (Hasseldine et al., 2005). We do so using two theoretical frameworks: legitimacy theory and stakeholder theory. We find that CSR reporting quality and board characteristics significantly influence corporate social reputation.

The remainder of this paper is organised as follows. Section 2 reviews the literature relating to CSR reporting, board characteristics, and corporate reputation. 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 concluding remarks.

2. Literature review

2.1 CSR reporting and corporate social reputation

CSR is a concept used to describe the social and environmental contributions and consequences of organisational activities (Jenkins and Yakovleva, 2006). The term 'CSR reporting', dealing with the disclosure of information by a firm about social and environmental effects of its economic actions to interest groups (e.g., regulators, investors, and environmental lobby groups) within society and to society at large (Gray et al., 1987), is thus an important aspect of CSR. The corporate reporting system covering social and environmental issues experienced an evolutionary process, which began with employee reporting and then moved on to social reporting, environmental reporting, social responsibility reporting and finally, sustainability reporting (Buhr, 2007).

The traditional CSR studies have used annual reports as the data source to investigate corporate social and environmental disclosure. With an increase in the production of stand-alone environmental reports or CSR reports in many economies (KPMG, 2002), more recent studies have investigated corporate social and environmental disclosure practices in CSR reports only or combining CSR reports with annual reports together as more comprehensive reporting media (Cormier and Magnan, 2003; Frost et al., 2005). Frost et al. (2005) found that in Australia, the annual report informed a little about corporate social and environmental activities and the stand-alone CSR report reported more of such information. This is because the purpose of the CSR report is the provision of social and environmental disclosure, and is directed to a different stakeholder group (Rowbottom and Lymer, 2009). Stand-alone CSR reports are prepared for stakeholders who are interested in social and environmental activities of a firm, whereas annual reports are prepared for shareholders who are interested in economic activities of the firm.

Legitimacy theory is widely employed in the literature to explain CSR reporting practices. This theory argues that an organisation is legitimised when its value system matches that of the social system of which it forms a part and that where there is a mismatch, the organisation's legitimacy is threatened (Lindblom, 1994). Embraced by many researchers, legitimacy theory suggests that the corporate motivation to disclose social and environmental information is to meet the norms and bounds of societal expectations (Deegan, 2002).

There are many groups of individuals within society, such as shareholders, creditors, employees, customers, and suppliers, who may be interested in the organisation's social and environmental activities. These groups have been identified by Freeman

(1984) as ‘stakeholders’ who may affect or be affected in the process of the achievement of the organisation’s objectives. An organisation’s stakeholders have the power to influence managerial strategic decisions in the form of control over resources required for the organisation to continue to exist (Ullmann, 1985). CSR reporting is expected to be an effective firm management strategy for developing and maintaining satisfactory relationships with stakeholder groups so as to legitimise the firm’s operation.

An explanation for CSR reporting practices that has recently emerged, suggested by reporting proponents (GRI, 2006; KPMG, 2005) and academic researchers (Toms, 2002; Hasseldine et al., 2005), is that these practices create good reputation. For example, KPMG’s (2005) survey of corporate sustainability reporting claims that one of the business drivers for CSR reporting is to have a favourable reputation. The conceptualisation of reputation ranges from a strategic management view that regards reputation as an intangible asset with the potential for value creation (Fombrun, 1996) to a sociological view that treats reputation as an outcome of shared socially constructed assessments of a firm (Fombrun and Van Riel, 1997). The most commonly used definition of corporate reputation is provided by Fombrun and Van Riel (1997, p.10) as “a collective representation of a firm’s past actions and results that describes the firm’s ability to deliver valued outcomes to multiple stakeholders. It gauges a firm’s relative standing both internally with employees and externally with its stakeholders, in both its competitive and institutional environments.” In extant literature, the most popular way to measure corporate reputation is via reputation ranking studies and various reputation indexes (Abeysekera, 2011). An examination of six worldwide reputation ranking surveys reveals that they mainly focus on five attributes of reputation: financial performance, quality of management, social and environmental responsibility performance, employee quality, and the quality of the goods/services provided (Bebbington et al., 2008).

In the accounting literature, legitimacy and reputation are sometimes used interchangeably (Chalmers and Godfrey, 2004). Both concepts are social constructions with stakeholders assessing firms, both are linked with similar characteristics, such as firm size and financial performance, and both create an improved ability to obtain resources (Deephouse and Carter, 2005). Legitimacy relies on "meeting and adhering to the expectations of social system's norms, rules and meanings," however reputation relates to "a comparison of firms to determine their relative standing" (Deephouse and Carter, 2005, p. 331). Legitimacy informs firms' reputation-seeking activities, adhering to social system's norms, rules, and meanings (King and Whetten, 2008). Therefore, from the legitimacy perspective, CSR reporting meets the norms and bounds of societal expectations and then improves stakeholders' assessments on a firm's relative standing, i.e. reputation.

CSR reporting can be conceptualised as an outcome representing disclosure whereas social reputation can be conceptualised as an outcome representing performance, and hence CSR reporting and social reputation emanate from two diverse constructs. As is outlined earlier, these two diverse constructs are empirically operationalised as two variables (CSR reporting as CSR reporting quality, and corporate social reputation as a rating score assigned to a firm by an independent rating agency) that are entirely independently derived.

Reputation is one of the most important intangible assets in a firm (Toms, 2002), and assets such as social reputation can become important contributors to firm performance. Reputational assets are hard to replicate by firms which are not socially responsible, and can ultimately have a positive effect on market value (Fombrun, 1996). As Fombrun et al. (2000) argued, reputation is 'at risk' in everyday interactions between organisations and their stakeholders at strategic, operational, and financial levels. An accurate identification of reputation risk is closely linked to effectively managing such risks for powerful stakeholders, and there is an increasing amount of empirical evidence suggesting that CSR reporting is a tool to manage corporate reputation for powerful stakeholders (Friedman and Miles, 2001; Toms, 2002; Hasseldine et al., 2005; Spence, 2007; Bebbington et al., 2008).

Friedman and Miles (2001) examined the association between CSR reporting and socially responsible investment (SRI) by interviewing experts in the SRI field, and found that a motivation for SRI was a business case to support CSR practices and CSR reporting so as to enhance corporate reputation.

Toms (2002) examined the relation between environmental reporting (a subset of CSR reporting) and environmental reputation, controlling for other factors that were previously known to influence corporate reputation. Toms (2002) determined corporate environmental reputation using the corporate reputation rankings for community and environmental responsibility published by *Management Today*. In his investigation of UK firms, Toms found a significant positive association between environmental reporting and environmental reputation, and this association was reaffirmed by Hasseldine et al. (2005).

Although Hasseldine et al. (2005) and Toms (2002) viewed reputation as an outcome in their empirical setting, more recently Bebbington et al. (2008) explored the proposition that CSR reporting is both an outcome of and part of the process of managing risks associated with corporate reputation, and concluded that the concept of reputation risk management could assist in the understanding of CSR reporting practice.

In a Chinese study, Rowe (2007) explored the normative assumptions underpinning corporate environmental reporting in China by interviewing senior managers and executives from fifteen firms operating in Shanghai, and found that 40 percent of participating firms identified reputation as a major incentive for corporate environmental reporting. The first aim of this study is to empirically examine the influence of CSR reporting on corporate social reputation in the context of China.

2.2 Board characteristics and corporate social reputation

Corporate governance is “the system of structural, procedural and cultural safeguards designed to ensure that a firm runs in the best long-term interests of its stakeholders” (Fombrun, 2006, p. 267). As Radbourne (2003) stated, the term corporate governance is used in two ways: one is that a company relates to others in the external environment through its reporting, business performance and demonstration of its responsibility, which are reputational measures; the other is that governance is concerned with the mechanism by which companies are directed and controlled, which relates to the internal performance of the board within the company. The ‘external’ aspect of corporate governance, CSR reporting, which demonstrates corporate social and environmental responsibility to relevant stakeholders, may come from the decision of the board—the ‘internal’ aspect of corporate governance.

The primary corporate governance mechanism is the board of directors (Fombrun, 2006). Good governance usually requires improving board characteristics, for example, installing a non-executive chairman or establishing a unitary board structure where all directors represent all shareholders (Fombrun, 2006). Board characteristics are important determinants of corporate governance (Brickley et al., 1997; Haniffa and Cooke, 2002; Eng and Mak, 2003; Musteen et al., 2010). Effective board characteristics is expected to ensure corporate effectiveness and strategic development as well as leading to better performance over time, which then contributes to corporate reputation (Radbourne, 2003).

The process of managing risks to enhance various aspects of corporate reputation ultimately lies with the board of directors. The link between board characteristics and corporate reputation has been demonstrated in several academic studies (Fombrun and Shanley, 1990; Radbourne, 2003; MacMillan et al., 2004; Musteen et al., 2010). Radbourne (2003), interviewing board chairs and general managers of performing arts firms in Australia, finds that certain board characteristics (e.g., good association between board chair and CEO) can influence the firm's reputation. More recently, Musteen et al. (2010), based on a sample of 324 firms on Fortune's list of most admired firms in the USA, finds that board characteristics significantly influence the assessment of corporate reputation by the business community. For instance, firms with larger boards exhibit better reputation than those with smaller boards.

This second aim of this study is to investigate the effects of board characteristics on corporate reputation in the Chinese context.

3. Theoretical framework and hypothesis development

3.1 Legitimacy and stakeholder frameworks

Corporate reputation is an outcome of a social evaluation by relevant stakeholders about the ways that a firm operates within the social norms and rules to obtain a favourable relative standing (Schweizer and Wijnberg, 1999). Bebbington et al. (2008) points out that CSR report can become an ‘action’ tool for organisations to reach stakeholders’ perceptions favourably. UNEP (2002) and KPMG (2005) survey of CSR reporting notes that CSR report is a driver for firm reputation. Bebbington et al. (2008) examining CSR reporting of Shell, observe that CSR reporting associates with various aspects of corporate reputation. In locating the theoretical positioning of their findings, Bebbington et al. proposed two theories to be positioned jointly – legitimacy theory and stakeholder theory. In support of adopting the stakeholder theory, they referred to the reputation tracker survey undertaken by Shell, where Shell has admitted that different stakeholders have different perceptions of Shell. The tracker survey validates the perceptual differences of stakeholders on Shell’s reputation. In support of legitimacy theory, they point that CSR reporting is a corporate response to perceived legitimacy threats, and is consistent with discourses aimed at outside the firm. Consistent with Adams (2002), they noted that CSR reporting is influenced in some manner by internal factors.

Corporate social reputation can be enhanced as an outcome of the positive impressions that firms impart on stakeholders through CSR reporting. The effect of CSR reporting quality on corporate social reputation can be influenced by various internal factors of firms, e.g. corporate characteristics, such as firm size, profitability, and industry classification, which may influence firms’ legitimacy- and reputation-seeking activities.

According to the ethical branch of stakeholder theory, CSR reporting is assumed to be responsibility-driven, which implies that people in society have a right to be informed about certain facets of a firm's operations (Deegan, 2009). In contrast, according to the managerial branch of stakeholder theory, CSR reporting and good governance with sound board characteristics are both means of managing relationships with relevant powerful stakeholders (MacMillan et al., 2004) who control resources necessary to a firm's operations or are involved in the assessment of various attributes of corporate reputation (e.g., financial stakeholders).

Legitimacy theory and stakeholder theory have been widely employed for CSR reporting studies. Are these two Western-developed theoretical perspectives able to be used to explain CSR reporting practices of Chinese listed firms? In China, increasing government role, public and media concerns, related laws, regulations, and standards, and CSR requirements from the global market environment all are effective drivers for making Chinese firms more publicly responsible to their various stakeholders (Liu and Anbumozhi, 2009; Wang and Juslin, 2009). The term 'CSR' now can be legitimately interpreted within the Chinese social value system. Various interest groups concerned with CSR within the Chinese society propel the development of CSR reporting practices in China. Accordingly, more and more Chinese firms have used CSR reporting to communicate with stakeholders and to demonstrate their social legitimacy. The Chinese social, political, and cultural context for supporting CSR appears to resonate with Western-developed legitimacy theory and stakeholder theory.

Taylor and Shan (2007) examined what drives social and environmental reporting of Chinese firms listed on the Hong Kong Stock Exchange, and concluded that legitimacy theory was less effective than stakeholder theory as an explanation of the quantity and quality of corporate social and environmental reporting in the Chinese context. Liu and Anbumozhi (2009) examined the determinants influencing Chinese listed firms' environmental disclosure under a stakeholder theory framework. The findings of their study implied that stakeholder theory only partially explained corporate environmental disclosure in China.

In this study, the legitimacy framework makes us appreciate the firm's CSR reporting as a response to meet the expectations of the society, and the stakeholder framework makes us appreciate powerful stakeholders as the target—either to manage relationships with them (managerial branch) or to meet responsibility to them (ethical branch). These two lenses allow us to appreciate corporate social reputation as an outcome of a firm's CSR reporting and operating with sound board characteristics in the context of China.

3.2 Hypothesis development

3.2.1 CSR reporting quality

Since reputation derives from an external collective assessment of a firm (Fombrun and Van Riel, 1997), one way in which it can be created and managed is through the process of reporting (Toms, 2002). Reputation includes two fundamental dimensions of a firm's effectiveness: an evaluation of firm's economic performance and an evaluation of the firm fulfilling social responsibilities (Fombrun and Van Riel, 1997). From the legitimacy perspective, firms may publish CSR reports to demonstrate their fulfilment of social responsibility and to underline their commitments to reputation-building initiatives. Empirical studies have confirmed that stakeholders view CSR reporting as useful to them (Harte et al., 1991; Deegan and Rankin, 1997; Milne and Chan, 1998). Studies have found positive associations between environmental reporting quality and corporate environmental reputation (Toms, 2002; Hasseldine et al., 2005), and positive association between CSR reporting quality and corporate reputation (Bebbington et al., 2008). Therefore, it is hypothesised that

H1: There is a positive association between CSR reporting quality and corporate social reputation.

3.2.2 Board characteristics

In this study, the impact of board characteristics on corporate social reputation is examined in terms of CEO/chairman duality, board size, board ownership, and board committees. The selection of these proxies to represent board characteristics is based on studies informing their influence on powerful stakeholders and the Chinese context. A function of governance is to manage particular relationships with powerful stakeholders, and therefore a firm operating with desirable board characteristics (chosen in this study) can enhance the image of the firm in the minds of its stakeholders, which can be interpreted using legitimacy and stakeholder theories.

CEO/chairman duality

CEO/chairman duality means that the CEO is also the chairman of the board. Fama and Jensen (1983) pointed out that CEO/chairman duality signals the absence of separation of decision control and decision management. When the CEO is also the chairman, the board's effectiveness in performing its governance function may be compromised due to the concentration of decision making and control power in one individual (Haniffa and Cooke, 2002), which is expected to have a negative effect on corporate reputation. The separation of the two roles has been advocated as a way of providing essential checks and balances over managerial performance (Argenti, 1976), and the duality has been criticised by powerful stakeholders as a weak form of governance (Boyd, 1995). Prior studies have found that stakeholders view firms with a clear separation between the two positions as more reputable (Musteen et al., 2010; Mazzola et al., 2006). In China, this issue has been considered important enough by the Chinese Securities and Regulations Commission (CSRC) to cause that body to suggest that large listed firms should separate the roles of CEO and chairman (Xiao and Yuan, 2007). Therefore, CEO/chairman duality is a threat to legitimacy in the eyes of stakeholders. Likewise, the following hypothesis is proposed:

H2: There is a negative association between CEO/chairman duality and corporate social reputation.

Board size

Larger boards are viewed as being more desirable as they can provide firms with more ways to connect with external stakeholders controlling resources necessary to firms' operations (Abeysekera, 2010; Musteen et al., 2010). Moreover, larger boards are more likely to include directors with greater diversity in education and industry experience and this diversity allows board members to provide the management with high quality advice (Zahra & Pearce, 1989). This could then contribute to the firm's image and relationships with stakeholders. Some empirical studies have found a larger board to be better (Gales & Kesner, 1994; Dalton et al., 1999). Musteen et al. (2010) found that board size is positively associated with corporate reputation. Accordingly, it is hypothesised that:

> *H3: There is a positive association between board size and corporate social reputation.*

Board ownership

It is plausible that board members with appropriate stock ownership have the incentive to provide effective monitoring and oversight of important corporate decisions, and thus efforts to improve corporate governance should include a consideration of board ownership (Bhagat et al., 1999). Grossman and Hart (1983) also pointed out that directors' ownership can induce them to act in a manner that is consistent with the interests of shareholders and other powerful stakeholders, which is likely to be translated into various attributes of corporate reputation as perceived by those stakeholders. The board with stock ownership is more likely to meet the expectations of powerful stakeholders, which will then have a positive effect on corporate social reputation. Therefore, it is hypothesised that:

H4: There is a positive association between board ownership and corporate social reputation.

Board committees

The board of a firm may establish a number of committees to maximise board efficiency and effectiveness, and thereby enhance the assessment of its performance by diverse powerful stakeholders. In China, the CSRC has established regulations to assist listed firms to develop board committees which will improve their board characteristics to maximise board efficiency and effectiveness (CSRC, 2002). The board with a number of committees is seen to be legitimate in the eyes of stakeholders, which is then likely to enhance corporate social reputation. Therefore, the following hypothesis is proposed:

H5: There is a positive association between board committees and corporate social reputation.

3.2.3 Control variables

Corporate characteristics are necessary and inevitable variables to demonstrate that firms operate within the norms and bounds of the society, and hence these characteristics can be interpreted using legitimacy theory.

Financial performance

Financial performance is a major element of reputation rankings (Bebbington et al., 2008). Strong financial performance predisposes stakeholders to regard firms more favourably (Fombrun and Shanley, 1990). Firms with strong financial performance are likely to communicate their legitimacy to the public and seek reputation as a competitive advantage. Prior studies found a positive association between corporate financial performance and corporate reputation (McGuire et al., 1988; Fombrun and Shanley, 1990; Musteen et al., 2010). Therefore, it is hypothesised that:

> *H6: There is a positive association between corporate profitability and corporate social reputation.*

Firm size

Firm size provides a proxy for the degree of pressure and visibility. Larger firms are more likely to be subject to public scrutiny (Fombrun and Shanley, 1990), and therefore more likely to seek legitimacy and then reputation. Firm size has been found to be a strong indicator for influencing corporate reputation in previous studies (Fombrun and Shanley, 1990; Hasseldine et al., 2005; Musteen et al., 2010). Thus, the following hypothesis is proposed:

> *H7: There is a positive association between firm size and corporate social reputation.*

Industry

The industry membership also influences visibility. Different industries have different characteristics, which may relate to intensity of competition, consumer visibility, and regulatory risk (Roberts, 1992). Firms in high-profile industries (i.e., high consumer visibility, high regulatory risk, or concentrated intense competition) have higher levels of CSR reporting (Roberts, 1992; Hackston and Milne, 1996). In this study, it is hypothesised that:

> *H8: There is a positive association between industry classification and corporate social reputation.*

4. Research methods

4.1 Reputation measure

Corporate reputation is usually measured via reputation ranking studies (e.g., *Fortune's American Most Admired Companies (AMAC)*, *Management Today's UK Most Admired Companies (MAC)*, and *Reputex Social Responsibility Ratings*). In this study, corporate reputation particularly refers to corporate social reputation. This study uses the *Chinese Stock-listed Firms' Social Responsibility Ranking List*, which is initiated by *Southern Weekend* (one of China's most popular newspapers), and co-investigated by the All-China Federation of Trade Unions, All-China Federation of Industry & Commerce, Peking University, Fudan University, and Nankai University. It is developed and continually improved by a group of experts and scholars from government, industry, universities, and research institutes. Differing from some Western ranking surveys such as *Fortune* and *Management Today*, which target only corporate executives and analysts, this ranking survey drew on the perceptions of a broader group of stakeholders, such as governmental officers, academics, executives, and analysts, and was conducted through a series of engagements between the research group and firms. Respondents were asked to rate the performance of a firm in terms of eleven attributes in four dimensions: economic performance (30%), social responsibility (40%), social contribution (20%,) and public image (10%) (Southern Weekend, 2008).

4.2 CSR reporting quality measure

In this study, sample firm's CSR reporting quality was evaluated by collecting the data on corporate social responsibility disclosure in its CSR reports based on the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines (G3 version). The GRI Guidelines provides an internationally recognised framework for corporate social responsibility disclosure, which is comprehensive and covers all disclosure aspects such as economic, social and environmental performance (Frost et al., 2005). The GRI (G3) Guidelines comprise two broad parts: the overall context for understanding organisational performance and organisational performance indicators, totally containing 121 reporting items (GRI, 2006).

In most previous studies, corporate social responsibility reporting is measured by volume-based content analysis (Gray et al., 1995; Hackston and Milne, 1996; Gao et al., 2005). Nevertheless, it has been recognised that reliance on the mere volume of CSR reporting can be misleading or insufficient (Cowen et al., 1987; Toms, 2002; Hasseldine et al., 2005). Further, counting the volume of CSR reporting does not provide an understanding of the type and importance of information being communicated (van der Laan Smith et al., 2005). Having more information being disclosed does not necessarily mean that the reporting is of high quality. Therefore, this study measures CSR reporting quality in terms of different reporting types that occurred in sample firms' CSR reports.

To reflect the spirit of the GRI Guidelines, and with the assumption that stakeholders prefer credible reporting that is hard to mimic, Clarkson et al. (2008) measured environmental reporting with placing a heavy emphasis on information reported that are hard to mimic (e.g. quantitative performance indicators) than those are easier to mimic. Similar to Clarkson et al. (2008), this study uses two different quality rating scales for GRI context items and performance indicator items. For 42 context items, which are easy to mimic, a score of 1 or 0 was assigned to each item based on reporting or no reporting. For 79 performance indicator items, which are hard to mimic, a score from 0 to 5 was assigned to various reporting types of each individual item. These reporting types and their assigned scores are as follows: score = 0, no reporting; score = 1, general narrative; score = 2, specific endeavour in non-quantitative terms; score = 3, performance data is presented with quantified results; score = 4, performance data is presented with quantified results relative to benchmark (e.g. targets/industry/previous periods); and score = 5, performance data is presented with quantified results at disaggregate level (e.g., plant, business unit, geographic segment). Consistent with previous studies (Toms, 2002; Hasseldine et al., 2005), the highest perceived quality rating of reported information for a given GRI item was used as the quality score of that GRI item reported (Toms, 2002). Finally, the total score of 121 GRI reporting items made up a firm's CSR reporting score.

4.3 Sample and data

Consistent with previous studies on corporate reputation (Toms, 2002; Hasseldine et al., 2005; Musteen et al., 2010), the effects of both CSR reporting quality and board characteristics on corporate social reputation, independent and continuous control variables were lagged by a year. The sample of this study involved firms included in the *Chinese Stock-listed Firms' Social Responsibility Ranking List* published by *Southern Weekend* for the years 2008 and 2009. A total of 100 firms were listed in the rankings for each year. As CSR reporting quality and board characteristics in the year 2008 were related to corporate social reputation in the year 2009, the sample was restricted to 83 firms included in the year 2009 ranking list, which had also previously appeared on the year 2008 ranking list. CSR reporting quality data were collected from firms' 2008 CSR reports. Board characteristics and control variable data for the year 2008 were obtained from the China Stock Market and Accounting Research (CSMAR) database and the annual reports of firms. The final sample firms, summarised and grouped according to industry sector, are presented in Table 1.

Table 1
Distribution of sample firms

Industry sector	No. of firms
High profile	
Metals & non-metallic	21
Banking & insurance	12
Extractive	9
Construction	7
Telecommunication	4
Electricity, gas, and water production and supply	3
Transportation & warehousing	3
Oil, chemical, and plastic	2
Food & beverage	2
Low profile	
Machinery, equipment, and instrumentation	10
Electronics	3
Wholesale & retail trade	3
Information technology	3
Conglomerate	1
Total	83

Note: The *Regulations of Environmental Inspection on Companies Assessing to or Refinancing on the Stock Market* (SEPA, 2003) stipulates that the following industries are pollution industries: metal, extractive, construction, electricity, oil and chemical, and food and beverage. In China, the following industries are viewed with high consumer visibility: banking and insurance, telecommunication, and transportation.

4.4 Model

The following model is employed to link CSR reporting quality, board characteristics, and corporate social reputation. The industry variable is not lagged as it is not influenced by the reporting year:

$Reputation_{2009} = \beta_0 + \beta_1 CSR_{2008} + \beta_2 DUAL_{2008} + \beta_3 BSIZE_{2008} + \beta_4 BOWN_{2008} +$

$$\beta_5 BCOMM_{2008} + \beta_6 FIN_{2008} + \beta_7 SIZE_{2008} + \beta_8 IND_{2009} \quad (1)$$

The variables in the above model are defined as follows:

Dependent variable

Reputation: Corporate social reputation is the social responsibility rating scores of the *Chinese Stock-listed Firms' Social Responsibility Ranking List* published by *Southern Weekend* for 2009.

Independent variables

CSR: Corporate social responsibility reporting quality is the total score of 121 GRI reporting items.

DUAL: CEO/chairman duality, which is 1 if the CEO is the chairman of the board for the year 2008, and 0 otherwise.

BSIZE: Board size by total number of directors on the board for the year 2008.

BOWN: Board ownership, which is the proportion of ordinary shares owned by all directors at the end of the year 2008.

BCOMM: Board committees, as measured by the total number of committees on the board for the year 2008.

Control variables

FIN: Financial performance, as measured by the profit margin ratio (net profit / total revenue) for the year 2008.

SIZE: Firm size, as measured by the natural logarithm of total revenues for the year

2008.

IND: Industry membership, which is 1 for firms belonging to high-profile industries (including metals, banking & insurance, extractive, construction, telecommunication, electricity, transportation, oil & chemical, and food & beverage), and 0 otherwise (see Table 1).

The associations defined in model (1) are tested in four versions of the model. First, Model (1.1) examines the effects of control variables on corporate reputation. Model (1.2) tests the direct effects of publishing a CSR report on corporate reputation. Model (1.3) tests the association between board characteristics and corporate reputation. Finally, Model (1.4) is the full model.

5. Results and analyses

5.1 Descriptive analysis for the variables

The descriptive statistics for all the variables are shown in Table 2. Panel A contains the dependent variable Reputation and other continuous variables while Panel B is for the dummy variables. As shown in the table, the independent variable CSR ranges from a minimum score of 0 to a maximum score of 174.5, with a mean of 83.747 and a standard deviation of 40.392, indicating that a large variation exists in the CSR reporting quality among firms. The range of board size (BSIZE) is from a minimum score of 7 to a maximum score of 19 with a mean value of about 11, which is consistent with prior studies (see Musteen et al., 2010). A mean value of 0.00076 for board ownership (BOWN) shows a low percentage of shareholding by directors in China. A mean value of 4 for board committees (BCOMM) meets the requirement of CSRC[1]. For financial performance (FIN), a low mean value of 0.082 shows that many firms have been influenced by the global economic crisis of 2008. In Panel B, fourteen percent of sample firms with CEO/chair duality (DUAL) indicate that CEO/chair duality is low among the sample firms.

Table 2
Descriptive statistics for variables

Panel A: Continuous variables

Variable name	Obs.	Mean	Std. dev.	Min.	Max.
Reputation	83	33.997	7.954	25.338	74.877
CSR	83	83.747	40.392	0	174.5
BSIZE	83	11.205	2.874	7	19
BOWN	83	0.001	0.004	0	0.031
BCOMM	83	4	1	1	7
FIN	83	0.082	0.138	-0.113	0.552
SIZE	83	24.551	1.060	23.088	28.004

Panel B: Dummy variables

Variable name	Obs.	No. of samples with 1	%	No. of samples with 0	%
DUAL	83	12	14	71	86
IND	83	63	76	20	24

5.2 Correlation matrix and bivariate analysis

The results of pairwise correlation for Reputation and all other variables are reported in Table 3. These correlations indicate that multicollinearity is not present as the highest correlation coefficient is 0.487 between CSR and SIZE. Also, the variance

[1] According to CSRC (2002), the board of a listed firm may establish four basic committees: corporate strategy committee, audit committee, nomination committee, and remuneration and appraisal committee; and other special committees in accordance with the resolutions of the shareholders' meetings.

inflation factors on these two variables are low (1.49 and 1.43 respectively), indicating the absence of multicollinearity. According to the table, all the independent and control variables have significant correlations with the dependent variable (Reputation) except board ownership (BOWN). CSR is positively associated with Reputation, indicating that CSR reporting quality has positive effects on corporate social reputation. As hypothesised, CEO/chairman duality (DUAL) is negatively associated with Reputation. The other two board characteristics variables, board size (BSIZE) and board committees (BCOMM) are positively associated with Reputation. All the control variables (FIN, SIZE, and IND) are positively associated with Reputation.

Table 3
Pairwise correlation coefficients

	Reputation	CSR	DUAL	BSIZE	BOWN	BCOMM	FIN	SIZE	IND
Reputation	1.000								
CSR	0.529***	1.000							
DUAL	-0.196*	-0.100	1.000						
BSIZE	0.244**	0.133	0.031	1.000					
BOWN	-0.084	0.034	0.341***	0.069	1.000				
BCOMM	0.203*	0.058	-0.138	0.365***	-0.136	1.000			
FIN	0.327***	0.315***	0.086	0.432***	0.091	0.402***	1.000		
SIZE	0.719***	0.487***	-0.031	0.171	-0.121	0.044	0.167	1.000	
IND	0.185*	0.221**	-0.089	0.139	-0.115	0.142	0.114	0.290***	1.000

* significant at $p<0.1$, ** significant at $p<0.05$, *** significant at $p<0.01$

5.3 Regression and multivariate analysis

Ordinary least squares (OLS) regression, with heteroscedasticity robust standard errors (White, 1980), was used to test the associations implicit in all models. The results for regression are shown in Table 4.

Table 4
Regression results for reputation

	Model (1.1)[a] Control variables	Model (1.2)[b] CSR	Model (1.3)[c] Board characteristics	Model (1.4)[d] Full model
Constant	-94.440***	-82.349***	-97.340***	-86.796***
CSR		0.037***		0.033**
DUAL			-4.626***	-4.044***
BSIZE			0.077	0.102
BOWN			109.726	70.042
BCOMM			0.594	0.693
FIN	12.461***	9.898**	10.896**	8.070
SIZE	5.214***	4.611***	5.243***	4.687***
IND	-0.771	-1.015	-1.225	-1.471

[a] F: 11.31, R^2: 0.562, N: 83
[b] F: 12.87, R^2: 0.587, N: 83
[c] F: 6.99, R^2: 0.609, N: 83
[d] F: 7.08, R^2: 0.629, N: 83
* significant at $p < 0.1$, ** significant at $p < 0.05$, *** significant at $p < 0.01$

As indicated in Table 4, CSR had a significant and positive association with Reputation in model (1.2) and model (1.4), which is consistent with the bi-variable result in the correlation matrix. H1 is strongly supported. As hypothesised, CSR reporting quality does indeed have a positive impact on corporate social reputation. The creation of reputation might be viewed as a driving force for providing high quality CSR reporting.

For board characteristics variables, CEO/chairman duality (DUAL) is found to be significantly and negatively associated with Reputation in model (1.3) and model (1.4). H2, therefore, is also strongly supported. This significant, negative association suggests that CEO duality adversely influences the effectiveness of corporate board in performing the governance function through the concentration of decision making and control, which then has a negative impact on corporate social reputation. Contrary to expectations, there are no significant associations between Reputation and other board characteristics variables, i.e., board size (BSIZE), board ownership (BOWN), and board committees (BCOMM). A possible reason for these non-significant associations is that these board characteristics as proxies for governance have been less visible to stakeholders involved in the assessment of corporate social reputation in the context of China.

The control variable firm size (SIZE) is found to have significant, positive associations with Reputation in all models. Therefore, hypothesis 7 (H7) is strongly supported. A significant and positive association between firm size and reputation provides evidence that larger firms are more positively viewed by stakeholders when assessing corporate social reputation. The control variable financial performance (FIN) is significantly and positively associated with Reputation in model (1.1), model (1.2) and model (1.3). A significant and positive association between financial performance and reputation shows that corporate social reputation is created by a financial "halo effect" (Toms, 2002, p.257). However, when considering CSR reporting quality and board characteristics simultaneously in one model, the association between FIN and Reputation is not significant. The impact of industry (IND) on corporate social reputation is not significant. A possible reason for this result is that the sample of this study as socially responsible firms has 'best practice' bias. The industry insensitivity on reputation is also found in the UK's environmentally responsible firms (Toms, 2002), and in USA's most admired firms (Musteen et al., 2010) due to their 'best practice' bias as reputable firms in the chosen reputation ranking. The findings of financial performance, firm size, and industry on corporate social reputation are consistent with previous studies (Fombrun and Shanley, 1990; Musteen et al., 2010).

To sum up, results show that firms' CSR reporting quality has a positive effect on their social reputation. The legitimacy and stakeholder framework could explain this finding. Those firms publish high quality CSR reports to demonstrate their social responsibility fulfilments to powerful stakeholders (e.g., shareholders and creditors) in society, who control resources necessary to their operations or are involved in the assessment of their social reputation. The empirical results of this study also indicate that CEO/chairman duality has a negative effect on corporate social reputation. According to stakeholder theory, for those powerful stakeholders of firms, CEO/chairman duality influences the effectiveness of the corporate board in performing the governance function and thereby adversely influences stakeholder assessments of corporate performance. In addition, financial performance and firm size are positively associated with corporate social reputation, indicating that visible firms are more likely to legitimate their strategic decisions and activities to stakeholders in the society.

5.4 Additional test

Ownership structure also influences corporate reputation (Fombrun and Shanley, 1990; Delgado-Garcia et al., 2010). For example, ownership concentration in the hands of the largest shareholder was found to adversely influence corporate reputation (Delgado-Garcia et al., 2010). Considering the impact of ownership concentration on corporate reputation, this study retested the regression model by adding ownership concentration (OWN) (i.e., the proportion of shares owned by the largest shareholder) as a control variable and found that it has no statistically significant influence on corporate social reputation. As indicated in Table 5, the results appear in a pattern very similar to the original regression results shown in model (1.4) of Table 4, with CSR, DUAL and SIZE reporting significant associations with Reputation at $p < 0.05$.

Table 5
Regression results for additional test

	constant	CSR	DUAL	BSIZE	BOWN	BCOMM	FIN	SIZE	IND	OWN
Coefficients	-86.174	0.034	-4.053	0.107	74.354	0.713	8.118	4.647	-1.503	0.461
***t*-statistics**	-3.59***	2.51**	-2.73***	0.50	0.88	1.18	1.62	4.81***	-1.36	0.13

F: 7.19, R^2: 0.629, N: 83

* significant at $p < 0.1$, ** significant at $p < 0.05$, *** significant at $p < 0.01$

6. Concluding remarks

This paper examines the effects of CSR reporting quality and board characteristics on corporate social reputation in the context of China. The empirical results provide meaningful insights into the association between CSR reporting quality, board characteristics, and corporate social reputation of socially responsible Chinese listed firms, which can be understood within the purviews of legitimacy and stakeholder frameworks. The findings indicate that for socially responsible Chinese listed firms, CSR reporting quality has a positive effect on corporate social reputation, and CEO/chairman duality has a negative influence on corporate social reputation. Our study also provides evidence that sound financial performance and large size are viewed as favourable by stakeholders when assessing corporate social reputation. Overall, legitimacy theory enables us to appreciate CSR reporting to meet social expectations, and stakeholder theory enables us to appreciate CSR reporting as a responsibility to and an association with powerful stakeholders where board characteristics play a vital role in those firms studied in China.

The findings of this study demonstrate that socially responsible firms can enhance their corporate social reputation by providing high quality CSR reporting and improving board structures. Our study also suggests that Chinese policy makers need to make continuous efforts by providing more detailed guidance regarding CSR behaviours and reporting to assist firms to become socially responsible by communicating their CSR activities effectively to important stakeholders.

This study contributes to the literature by incorporating three vital areas in an organisational setting: CSR reporting, board characteristics, and corporate social reputation. This study also makes a theoretical advance in combining two theories simultaneously to explain corporate social reputation phenomena. It fills a void in the contemporary research on the influence of CSR reporting quality on corporate social reputation in the context of a developing country.

However, findings of this study must be interpreted considering the following limitations. First, a relatively small and 'best practice' sample with a reputation for social responsibility as assessed by an independent ranking system is used, which might not represent all the Chinese listed firms. Therefore, it may limit the generalisability of the findings to firms outside the ranking system. Secondly, the choice of accurate proxies for various variables influencing corporate social reputation in this study may also limit the study's validity, as alternative variables and proxies are equally possible. Finally, it should be acknowledged that the use of a single year's data for testing the associations hypothesised in this study can restrict generalisability of findings. The above limitations and findings of our study can provide a springboard for further research. For instance, a future study may continue to examine CSR reporting quality, board characteristics, and their influence on corporate social reputation under different theoretical frameworks and over several reporting periods.

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