

Exploring the Path and Methodology for Establishing a Sound Regulatory Framework for Corporate Social Responsibility Reporting

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Abstract. In recent years, as international market exchanges have accelerated, the concepts of sustainable development and social responsibility for enterprises have gained traction. In China, these concepts have also become increasingly important, as the country seeks to align itself with the international community. However, despite several years of development, the disclosure of corporate social responsibility (CSR) reports in China still lags behind. This can be attributed to several factors, including the relative lack of laws, regulations, and systems, weak awareness among corporate entities, and low quantity and quality of report releases, resulting in a poor impact. To address these issues, the author conducts a vertical comparative analysis of system evolution, highlighting various problems in the practice of CSR reporting in China. Additionally, by drawing on the experiences of other parties, the author proposes measures to improve relevant legislation and systems. Ultimately, the author hopes to explore a feasible path for CSR reporting in China that responds to national conditions and aligns with economic and social development trends, through the regulation of non-financial information disclosure systems.

Keywords: Economic globalization; social responsibility reporting; listed companies; corporate economics.

1. Introduction

With the integration of the international capital market and the acceleration of financial opening, companies of various sizes are expanding and developing rapidly. However, as they do so, problems such as ecological environment, production safety, and employees' rights and interests are becoming increasingly apparent, which has drawn attention from all walks of life. This has led to the question of how companies should achieve sustainable development and improve their social responsibility value.

Referring to the content of the "Outline of the 14th Five-Year Plan of the National Economic and Social Development of the People's Republic of China and the Vision 2035," released on July 1, 2021, it can be seen that companies should attach great importance to their own sustainable development and timely disclosure of their fulfillment of social responsibility. They should report to the unspecified public on the company's assumption of social responsibility through regular reports and other forms.

Globally, the mechanism of information disclosure is mostly adopted to promote companies' fulfillment of social responsibility. However, there is no specific regulation for the corporate non-economic information disclosure system in China, and the relevant legal system has many deficiencies. Although China issued Article 20 of the Company Law (Second Amendment) in 2022, which encourages enterprises to carry out public welfare undertakings and publish CSR reports, it only provides a general summary of the CSR report, and does not regulate the specific disclosure methods, disclosure subjects, disclosure contents, disclosure responsibilities and disclosure effect evaluation in more detail.

Therefore, this paper aims to take the non-economic information disclosure system as the entry point, and conduct a comparative analysis of the development history, disclosure methods, operation mode, content selection, implementation effects, and limitations of the corporate social responsibility system. By drawing useful insights from various parties, this paper aims to provide a practical and reliable solution for regulating how companies make information disclosure. This will make the

implementation of Article 20 of the Company Law (Second Amendment) more operable and improve the supervision of the corporate information disclosure system in China.

2. Evolution of social responsibility reporting mechanism

Social responsibility reporting is an important system for corporate social responsibility, and the development of its related concepts has gone through a long and diverse process. Western societies dating back to the middle of the 20th century were in a transitional period of shifting opinions and perspectives regarding corporate social responsibility. During this period, companies needed to base their policies and thus their decisions on the desired goals and value orientation of society. However, as the society at that time generally followed the concept of shareholders' interest first and profit first, the importance of companies and the understanding of terms were mostly inconsistent, and there were different understandings of the concept and scope of application of social responsibility. It was not until 1979 that Archie B. Carroll defined corporate social responsibility as the economic, legal, moral and philanthropic responsibilities of a company, which together with the "pyramid of corporate social responsibility" proposed in 1991, laid the theoretical cornerstone of corporate social responsibility [1]. Since the 1990s, the development of CSR in China has grown rapidly, and the discussion of sustainable development and CSR has gradually advanced from the national level to the grassroots level.

A social responsibility report is a system that systematically organizes and summarizes information on a company's philosophy, work methods and approaches, daily activities and the impact it has had on the social economy, ecological environment and other areas, as well as the results and shortcomings it has achieved, and discloses them to the outside world. Corporate social responsibility report is an important carrier of non-economic information report disclosure, a way of information disclosure with corporate social responsibility as the core and basis, and an important way of common communication between the company and the outside world. This system has gained comprehensive and long-term development amid the trend of companies actively assuming social responsibility.

In China, the China CSR Report Rating ("Report") is currently used to guide companies to further improve the enthusiasm and quality of sustainability reports, and on this basis, the actual situation of China's company composition is taken into account, from "process," "content," "completeness," and "content." , "completeness", "balance", "comparability", "readability" "The report's preparation process and disclosure quality are comprehensively evaluated in seven dimensions, and the new trend of listed companies in China is systematically summarized, with a view to providing reference for the social responsibility information disclosure work of Chinese companies. Guided by this concept, Chinese companies have gradually become more aware of the initiative of information disclosure, the number of reports issued by companies has increased significantly, the content and forms have become more diversified, and the quality of information has steadily improved. A total of nearly 2,000 corporate social responsibility reports were issued in China in 2021, almost twice as many as 10 years ago. By now, the concept of social responsibility of Chinese companies is changing from passive fulfillment to proactive, but the government and relevant departments should still continue to increase the guidance and supervision on the fulfillment of social responsibility in the process of sustainable development of companies, and there is a long way to go to widely realize the goal of corporate social responsibility.

3. Feasibility analysis of information disclosure system under social responsibility

3.1 Non-economic information versus traditional financial information disclosure

The information disclosure system can be broadly divided into the traditional financial reporting and non-economic information disclosure systems, the relationship between the two is like the two

wheels of a car and the two wings of a bird, complementary and inseparable. To a certain extent, the disclosure of non-economic information can play a role in making up for the general financial information, which is mainly reflected in several aspects: First, the disclosure of non-economic information has a broader scope and can reflect the operating conditions and health of a company more comprehensively. Secondly, it is more flexible in terms of presentation, and is no longer limited to the strict fixed requirements on format, content and timing of general financial reports; thirdly, it is non-monetary, i.e. the information in financial statements often has a strict value scale, which is difficult to confirm and measure with data, and such information can be appropriately disclosed through non-economic information; fourthly, it is more forward-looking in terms of time, and is based on the analysis of previous financial reports. Fourth, it is more forward-looking in terms of time, and on the basis of analysis of previous financial reports, non-economic information is used to supplement it, so as to conduct an in-depth study of the company's development prospects, operating conditions, stability, etc., so that investors can have a clearer understanding of the company's environment and thus help them make more reasonable investment decisions.

On the whole, non-economic information disclosure can reflect a lot of non-monetary information, as well as future information and company risks, so that the company's comprehensive information can be fully disclosed, and it is very important to enhance the company's awareness of responsibility through the use of social concern, and provide a more comprehensive judgment for report users, so as to comprehensively improve the level of non-economic information disclosure.

3.2 Limitations of non-economic information disclosure

Although the non-economic information disclosure system as a new perspective makes up for the many defects of traditional financial reporting, there is still a considerable part of resistance in the specific practice process, whether from the company's own perspective, or negligent management by the government or relevant organizations and the weak circulation of information, to a certain extent, making the quality and effect of non-economic information disclosure far less than expected, so that the implementation of corporate social responsibility is difficult to implement, as reflected in the following aspects:

1) Lack of awareness among market players and weak awareness of independent disclosure

Currently, the government is still one of the most important stakeholders of Chinese companies and a strong promoter of corporate social responsibility, which predisposes Chinese companies to be socially responsible with Chinese characteristics, but not so much in line with the frameworks and guidelines set by international investment or rating agencies. "Voluntary" and "autonomous" are the international requirements for CSR, and Chinese companies are trying to meet the government's expectations. The CSR undertaken by Chinese companies is categorized as "legal responsibility" according to international evaluation standards, and is only at the bottom of the CSR pyramid, and is by no means the full range of social responsibilities that companies need to fulfill.

2) The regulatory system is not yet perfect and the disclosure system is inconsistent

Corporate social responsibility is a relatively broad concept, so companies' understanding of the concept of corporate social responsibility varies greatly. In addition, companies' own governance levels and management systems vary, so there is naturally a great deal of variation in the setting of sustainable development goals and the fulfillment of social responsibility. Some companies may take advantage of regulatory loopholes to misrepresent their performance. Especially for private companies, which are deeply influenced by the concept of "profit maximization," the cost of pseudo-socially responsible behavior such as false advertising is usually very low. In the current regulatory system is not sound, most companies only need to publish slogans, symbolic show, and other ways to get the government's policy support and consumer trust. Therefore, there is a lag in fulfilling responsibilities, and the performance of corporate social responsibility practice activities is poor or even non-existent.

3) The number of disclosed companies is low and unevenly distributed

Among listed companies, less than 40% of them disclose social responsibility reports, not to mention tens of thousands of non-listed companies, which rarely disclose non-economic information proactively. Compiling data on social responsibility reports of A-share listed companies from 2016 to 2022, as of May 31, 2022, there were 4,817 listed companies and 1,422 disclosed corporate social responsibility reports, and the overall disclosure rate has shown an upward trend over these seven years, but the disclosure rate has never exceeded 30%. Listed companies are also leaders in fulfilling their economic and legal responsibilities, but their disclosure status is unsatisfactory, and the social responsibility disclosure and fulfillment of other unlisted companies is even more difficult.

4) Form over substance in disclosures

Among the 2,097 corporate social responsibility reports published in 2018, about 60% of them were less than 30 pages, and even more nearly 20% of the corporate social responsibility reports were less than 10 pages. In addition to the small length of the reports, most of them are some fake and empty slogans and some rough general principles, rather than information on various social responsibilities actually performed by the companies, and the disclosure involving specific elements is even rare. At the same time, tendentious disclosure is a norm in the company's social responsibility reports, that is, in the reports, positive information about the fulfillment of responsibilities is emphasized, while negative information such as production and operation accidents, environmental pollution, other disputes or failure to fulfill responsibilities is downplayed or not even mentioned at all.

5) Weak comparability of disclosure information and low reference value

As mentioned earlier, the type and content of disclosure reports is cumbersome and confusing, which makes it difficult to make horizontal and vertical comparisons of corporate social responsibility commitment. Nearly 60% of all company reports published in 2018 did not carry out any horizontal and vertical quantitative data, and only qualitative analysis was carried out, making it difficult to achieve horizontal comparisons of social responsibility fulfillment among different companies through quantitative analysis. On the other hand, the content of non-economic information disclosure of companies tends to be homogeneous, and there are imitations and followers among companies, leading to the phenomenon of discontinuous disclosure and low-quality disclosure. This situation not only facilitates companies to conceal information unfavorable to themselves and reduces the effect of non-economic information disclosure, but also makes investors' good opinion of the company continuously low and influences them to make reasonable investment decisions, which is ultimately far from the original purpose of the company to publish social responsibility reports.

3.3 Rational choice of system

In the new era, non-economic information disclosure is an important tool to promote the all-round management of companies. China has long attached importance to the sustainable development and social responsibility of companies, and one of the typical systems, the ESG information disclosure model, was first proposed in 2006 in the "Guidelines on Social Responsibility of Listed Companies on Shenzhen Stock Exchange" promulgated by the Shenzhen Stock Exchange, and with the speeding up of China's financial reform process in recent years As the financial reform process in China has been accelerating in recent years, the investment structure has become more and more diversified, the capital market has expanded and opened up to the outside world, and the introduction of international credit rating mechanisms has raised higher standards for domestic corporate governance. While continuously improving the market operating environment and expanding openness, ESG information disclosure has emerged as a new star and become an important mechanism to promote the sustainable development of companies. Take the index system of world-renowned ESG evaluation institutions (FTSE Russell, Minnesota Index) as an example: FTSE Russell ESG evaluation covers 14 aspects, including biodiversity, climate change, pollution and resources, environmental supply chain, water security, consumer responsibility, health and safety, human rights and community, labor standards, social supply chain, anti-corruption, corporate governance, risk management, tax transparency;[2]The Minnesota Index Tier 1 factors include 10 major areas, Climate Change, Natural

Resources, Pollution and Waste, Environmental Opportunities, Human Resources, Product Responsibility, Stakeholder Opposition, Social Opportunities, Corporate Governance, Corporate Behavior[3].

corresponding to listed companies, the SEC in 2018 made clear and specific regulations on the positioning of the principles of social responsibility, the main contents and the framework of ESG information disclosure, and incorporated them into the governance system of listed companies. In the same year, driven by the OECD Principles of Corporate Governance and other factors, the Code on Governance of Listed Companies was amended to establish the infrastructure of ESG information disclosure from the interrelationship between corporate governance and social responsibility, showing a model of ESG information disclosure with significant Chinese institutional characteristics. The above measures have improved the degree of convergence between domestic companies and the international capital market, and provided more scientific guidelines for the construction of institutional mechanisms for non-economic information disclosure of Chinese companies and their open participation in international market competition.

Since the 18th Party Congress, the Central Government has made a series of instructions to strengthen the construction of ecological civilization and promote sustainable development, especially in the production and operation of companies, which should focus on green protection, actively fulfill social responsibility, continuously introduce new development concepts and create new development models. Under the background of China's green finance policy, green financing is in full swing, and laws, regulations and policies related to ESG are being improved, making non-economic information disclosure reports more adaptable to the needs of society and company development, thus promoting more investors to integrate the content of social responsibility reports into their decision analysis.

4. The improvement path of non-economic information disclosure mechanism

4.1 Model selection

Under the trend of increasingly mandatory disclosure of social responsibility information, the non-economic information disclosure mode of Chinese companies is still dominated by arbitrary disclosure and supplemented by mandatory disclosure, and most companies are not very willing to disclose social responsibility information and are not very active in disclosure, forming a situation in which state-owned enterprises are the main ones and private enterprises are the minority in disclosure. Based on this, I propose to establish the principle of mandatory disclosure for listed companies and encourage "semi-mandatory disclosure" for the public and private companies, treating non-disclosure as an exception and urging companies that fail to fulfill their social responsibility to give reasonable explanations. Further, we should combine the mandatory and arbitrary norms to promote companies to take the initiative to assume social responsibility and expand the number of companies that respond positively, and fully realize the protection of the company's autonomy, i.e., fully respect the company's autonomy, leaving room for its management and strategic planning. On the other hand, most private companies, especially small and medium-sized companies, generally lack the awareness and action power to actively fulfill their social responsibility, coupled with the fact that domestic society has not formed an atmosphere of actively fulfilling social responsibility information disclosure obligations, there is an urgent need for legislative intervention to strictly require all companies to comply with the statutory procedures and to summarize the performance of corporate social responsibility within a specified period of time, in order for companies to disclose information to investors and the general awareness of the public, analyze specific problems, reasonably delineate the boundary range between mandatory and arbitrary disclosure in different industries and companies, and practice the semi-compulsory non-economic information model with scientific theories.

4.2 Non-economic information versus traditional financial information disclosure

The main targets of social responsibility report participation include internal company and stakeholders, in addition to ordinary investors, government agencies, NGOs, China Securities Regulatory Commission, exchanges, etc. First of all, as far as the company is concerned, it is necessary to clarify who are the subjects of social responsibility information reports issued by the company and who are obliged to disclose the ESG information of the company in a timely manner according to the law. With an eye on the composition of the departments specified in the company law, I believe that the subjects qualified for disclosure should certainly include the board of directors, the general manager, the supervisory board and the relevant departments engaged in securities affairs, and for information related to the company's significant interests or other important information, it can be disclosed through the shareholders' meeting or the shareholders' general meeting vote. Secondly, from the perspective of government agencies, NGOs, SEC and stock exchanges, relevant regulations and industry guidelines need to be formulated to regulate the subjects, manner, content and time frame of non-economic trust disclosure of companies, etc., and to accelerate the formation of corporate awareness of social responsibility under the guidance of relevant associations and organizations to create a favorable social environment for the ESG trust disclosure system. Secondly, we should take the initiative to communicate with external investors and integrate the non-economic information of the company with the preferences of the public and investors, so as to enrich and improve the content and form of social responsibility reports. Generally speaking, the participating subjects include all stakeholders involved in all aspects of the company's social responsibility report, and play the function of clarifying the subjects who enjoy rights and bear such obligations.

4.3 What's Covered

Corporate social responsibility is originally a relatively abstract concept that is difficult to explain clearly in words alone. In this case, the company needs to turn social responsibility into various economic and non-economic information, and express it, then combine it with the application of data to make the abstract responsibility concrete and clear, so as to realize the standardization and materialization of the responsibility report, so that investors and evaluation agencies can get sufficient and effective reference, that is, information visualization. Generally speaking, I believe that a qualified report should contain background information, general planning, scope of capital activities, resource utilization, core competencies, comparative analysis of industry characteristics, changes in managers, opportunities and risks, changes in management, future trends, and various environmental responsibility indicators, as well as the protection of employees and consumer rights.

4.4 The effect of publishing

Social responsibility report rating can reflect the quality or effect of non-economic information disclosure of companies, which can not only be the evaluation standard for good or bad social responsibility reports, but also provide stakeholders with more comprehensive reference information and facilitate the mutual exchange of information among companies to meet the need of information symmetry. Specifically, the social responsibility report rating mechanism provides companies and organizations with an environmental, social and governance evaluation system and stipulates the basic principles, practical requirements, evaluation indicators and evaluation methods for the evaluation. As the content of information disclosure continues to improve, the social responsibility report rating mechanism can appropriately play the role of checking for gaps as stakeholders are paying more and more attention to social responsibility reports, which is reflected in further improvement of the content of social responsibility reports and information disclosure standards, and using the rating level to force companies to do a good job of social responsibility reports for the sake of business efficiency and fulfill their social responsibilities, so as to This will further realize the substantive effect of the non-economic information disclosure mechanism.

4.5 Assumption of responsibility

The current law in China only makes corresponding penalties for irregular disclosure behaviors, and temporarily does not punish ordinary enterprises for not fulfilling their social responsibility disclosure behaviors. However, against the background of the growing popularity of ESG-based corporate social responsibility reporting, the influence of social responsibility reporting is expanding in scope and breadth, and has gradually evolved into a practice of companies in their market operation activities. Therefore, on the premise of regulating the content and form of non-economic information disclosure, there is an urgent need for matching laws and regulations to punish behaviors such as violating the obligation to fulfill social responsibility reports or failing to disclose social responsibility reports reasonably and legally, both from the perspective of government legislation and from the perspective of introducing management measures by relevant industry organizations, which should make violations of the aforementioned Companies that violate the "semi-mandatory disclosure obligations" mentioned above should be subject to severe responsibilities such as warnings, fines, correction orders or even suspensions and license revocations. This kind of punishment is based on creating a good market environment, strengthening the transparency of information and clarifying the social responsibility of the company, which also belongs to the category of punishment in the social public sphere.

5. Summary

Currently, with the promotion of China's common prosperity and rural revitalization strategy, companies are facing new opportunities and challenges. While paying attention to sustainable development and social responsibility issues, the social information disclosure system of companies plays a crucial role in fulfilling their responsibilities. In order to construct a more detailed solution for the regulatory mechanism of China's social responsibility reporting, it is necessary to analyze the advantages, disadvantages, and feasibility of the non-economic information disclosure system, as well as the corresponding future reform trends. From several aspects, such as participating subjects, disclosure responsibilities, disclosure mode, report content, and evaluation mechanism, corresponding reforms can be made in accordance with Chinese characteristics to make its application more practical and possible.

Moreover, with the development trend of the world economy, the construction of a corporate social responsibility system is in line with the process of globalization market. Chinese people highly value the fulfillment of corporate social responsibility, making it urgent to build a Chinese corporate social responsibility information disclosure system. However, there still exists a considerable part of ambiguous legislation and norms, especially in the disclosure of non-economic information. It is necessary to introduce mandatory legal norms to solve the problem and meet the realistic requirements of non-economic information in the disclosure of corporate social responsibility reports. This will further realize the perfect connection with international social responsibility reporting standards.

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