Christopher Marquis
Cornell University
Cuili Qian
City University of Hong Kong
Rewritten by
Runtian Jing

The Double-edged Sword of Bureaucratic Connections

How and why do firms strategically respond to government signals regarding appropriate corporate activity in emerging markets?

While much prior research has focused on the important mechanisms of corporate political strategy in Western contexts, researchers are now focusing more on how corporate political strategy in emerging markets such as China may differ or be similar. Thus far, this stream of research has mainly focused on the importance of firm leaders' personal network ties with the government. We expand the research to a broader context, observing that, on the one hand, government bodies are very strong and control many economic opportunities, including industry access control, new investment ratification, value-added tax differentiation, control of pace and pattern of privatization or decentralization, and government involvement in business activities such as material sourcing, distribution, and marketing. On the other hand, because the rule of law is absent and there is, in general, an underdeveloped institutional infrastructure and weak enforcement of the rules that do exist, it can be hard for firms to know how to interpret and respond to the government. We argue that in such situations, responding to governmental signals and building legitimacy with governmental actors is critical. More specifically, our present study focuses on how and why firms strategically respond to government signals regarding appropriate corporate activity.

Our empirical context is the introduction and spread of corporate social responsibility (CSR) reporting among approximately 1,600 publicly listed Chinese firms from 2006 to 2009. This context is in many ways ideal to study the issues of interest. First, it is an activity that the Chinese government has been actively signaling to firms as legitimate and important. Many observers perceived an important shift in China's economic development in 2006, when the Hu Jintao administration announced the 11th Five-Year Plan for National Economic and Social Development, articulating a national vision based on the principles of "Harmonious Society" and "Scientific Development." This was widely viewed as a signal that the government was shifting from a policy of economic growth at all costs to one of economic growth balanced with the need to tackle pressing social and environmental problems. Since then, the central government has issued a number of CSR reporting guidelines for large firms as a strategy to help balance China's extensive economic growth with the social and environmental effects of that growth. It is important to note that these governmental issuances are not specific laws or mandates, but examples of a government signaling what it considers to be an important area of corporate focus. However, the firms' responses are very agile.

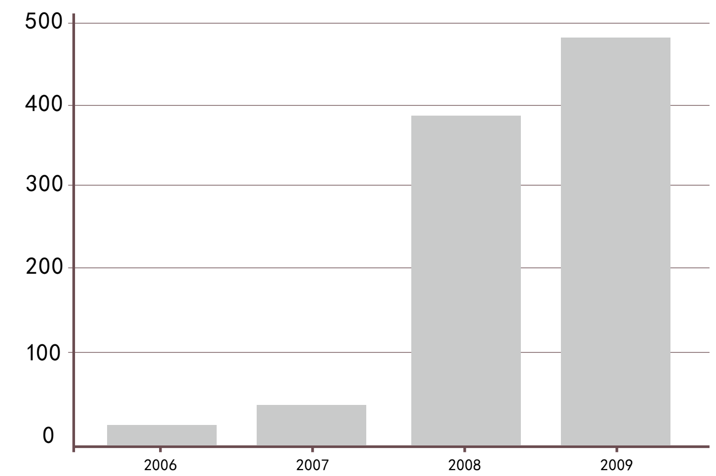

Figure 1. Number of CSR Reports Issued by Chinese publicly Listed Firms

As of 2009, Chinese firms issued over 15% of the world's CSR reports, yet there is significant variation across Chinese firms in the amount of information disclosed on specific CSR activities. This variation allows us to determine the extent to which the reports are purely symbolic exercises or indicative of substantive CSR activities. In the political economy of China, significant state ownership of many firms along with the extensive and varied connections between the government and large firms allow us to examine how the effect of government signaling varies depending on the degree of direct government control.

Based on the empirical analysis of the CSR reporting behavior in the above context, we contribute a political response model including two key factors that shape a firm's response to government signals: political dependence and government monitoring.

Our results point to a complex process, with several factors influencing political dependency, which in turn affects the likelihood that a firm will comply with government signals by issuing CSR reports. Our emerging market context, a country whose government is a substantial owner of many firms, allowed us to differentiate between government relations focused on control versus those focused on a firm's quest for greater legitimacy. We found that a number of variables that proxy firm dependence on the government—including CEO membership in political councils (the NPC or CPPCC), political legacy, and financial resources—all affect its legitimacy position and, correspondingly, the likelihood of issuing a CSR report. While our findings regarding the main effect of private control were not statistically significant, a number of the other political factors tested did moderate the effect of private control on reporting, suggesting that a firm's response to government

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signals is not a simple process. Firms face many different pressures depending on their characteristics and one unique feature of China is that there are also strong pressures from the government on some SOEs to be global exemplars. Thus, a key conclusion of our research is that the effects of government legitimacy pressures cannot be accurately identified without fully understanding how a firm's background, situation, and position affect its political dependence.

Prior research has also found that such legitimacy pressure can result in decoupling processes whereby corporate responses to external demands vary in the extent to which they are symbolic or substantive. In this study, we further explore the extent to which symbolic action in response to government signals depends on the likelihood of a firm being monitored by government actors. Research on decoupling has shown that the implementation of symbolic strategies is typically not monitored by stakeholders. We introduce the notion that firms face a "decoupling risk" if they respond only symbolically to government signals: exposure of the decoupling may harm the firm. Specifically, we argue that a combination of (a) a firm's bureaucratic embeddedness—its network connections within the government bureaucracy as opposed to its connections to national congresses—and (b) regional government institutional development subject the firm to more governmental monitoring. The results show that, different types of corporate political network ties (that is, ties to national congresses versus ties to the operating bureaucracy) affect firm behavior differently. Some political ties—such as executives serving on political councils—are more symbolic, resulting in correspondingly symbolic CSR action. Other ties, such as the extent of embeddedness in government bureaucracy, are more ongoing and concern material resources and are therefore associated with greater monitoring and result in more substantial CSR action. Thus, the use of political networks can be a double-edged sword; they can increase access to resources, but at the cost of more government monitoring. We also found evidence of a political imprinting process such that older firms, presumably more influenced by the earlier socialist system, were less likely to pursue CSR reporting as a political strategy.

The second stage of our analyses focused on the substantiveness of CSR reporting and we acknowledge that a more detailed test of the substantiveness of CSR activities would be gained by examining the activities themselves. But, based on our supplementary analyses, discussions with consultants, and spot-checking of the highest- and lowest-rated CSR reports, there are strong indications of a high correspondence between a firm issuing more substantive reports and actually enacting CSR practices. Over the past 15 years, the number of global firms issuing CSR and sustainability reports has increased from virtually none to over 3,000. But such reporting has been criticized as a sophisticated version of greenwashing or "pinkwashing"—spreading a veneer of disclosure over a lack of actual CSR activity. CSR itself has been criticized as mostly "myth and ceremony" with little actual substance. While our results support the idea that some CSR activity may be mostly symbolic, they also suggest that increased monitoring will lead firms to be truly, more socially and environmentally responsible.

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Tiziana Casciaro
University of Toronto
Francesca Gino
Harvard University
Maryam Kouchaki
Northwestern University
Rewritten by
Ruoyong Zhang
Haizhen Wang

How Can Networking Make Us Feel Dirty?

Instrumental networking in pursuit of professional goals can impinge on an individual's moral purity and thus make an individual feel dirty.

In both our personal and professional lives, we often engage in behaviors that help us developing new social ties or nurturing existing ones. For instance, we may join prestigious professional associations, connect with highly visible people in our organizations, or participate in social events. These behaviors, known as networking behaviors, are individuals' attempts to create and maintain relationships with others who can assist them in their work or the development of their careers. Social media platforms, such as Facebook, Twitter, and WeChat, facilitate building one's social networks nowadays.

How does the active pursuit of social relationships—as opposed to being the passive recipient of constraints and opportunities created by social structures—influence an individual's emotions, attitudes, and outcomes? Such effects may depend on whether the ties are personal or professional, and whether they are instrumental or spontaneous.

How Does Networking Make Us Feel Dirty?

People desire to be moral, in terms of self-perceptions at least. Talking about morality, professional networking could be more difficult to justify than personal networking, for the latter is supposed to be animated by a concern for the other, obligated to care for the welfare of the other, and belonging to a group with sacrifice of part of individuality. In contrast, professional ties do not have